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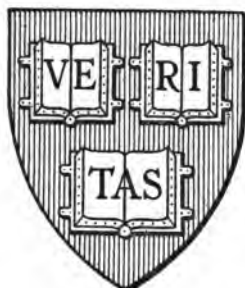
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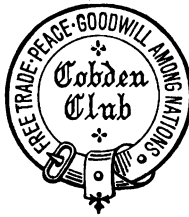
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AUGUSTUS MONGREDIEN.

FOURTH EDITION.



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1879.

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FREE TRADE AND ENGLISH COMMERCE.

CHAPTER I.

INTRODUCTORY.

IT is intended in the following pages to take a short review of the present position of the free trade question in respect to the world at large, and especially in respect to the commerce of England. Such an inquiry might be useful, and perhaps interesting, at any time, but now, when commerce is abnormally depressed, and when it is a moot point how far that depression is connected with our free-trade policy, it becomes an important and urgent one.

It is proposed, in the first part, to show the bearings of free trade on the commerce and industry of nations generally; and in the second to examine into the real causes of the present condition of English commerce, and ascertain to what extent, if any, it may be ascribable to the operation of free trade.

The subject will be treated from a practical and popular point of view, its technical and scientific aspect having had ample justice done to it by Professor Fawcett and others. In matters of this kind, where the practical application of scientific conclusions depends on the action of men laboriously engaged in political or mercantile pursuits, who have little time to devote to the study of abstract questions, it is necessary to place the subject before them in the most direct and concrete form, and to appeal to demonstrable facts and undeniable figures, in order to arrest

their attention and obtain their assent. Still more necessary it is to treat the subject in a popular manner, in order to secure a hearing from the mass of the public, who, not unnaturally, shrink from the study of dry works on Political Economy.

Neither is it necessary to study Political Economy as a science in order to arrive at a definite conclusion as to the principle of free trade. The question narrows itself into a few simple issues, on which plain common sense is quite competent to deliver a verdict. -

We propose, in the first part, to show—

1. That balances due by one country to another are paid directly or indirectly in commodities, and not in specie, unless occasionally and to an insignificant extent.

2. That, consequently, for every export of goods that is not sent to pay a previous debt there must be an import of goods to the same amount; and, *vice versa*, for every import of goods that is not received in liquidation of a previous debt there must be an export of goods to the same amount.

3. That all artificial limitation of imports necessarily limits exports to the same extent; that it curtails foreign trade, neutralises the benefits of division of labour, and displaces labour and capital from productive into unproductive channels of employment.

4. That various other inconveniences and disadvantages result from the curtailment of foreign imports and the restriction of commercial intercourse between man and man.

To revert to the first proposition: a slight consideration of the actual course of events as they occur under our own eyes, shows that the precious metals play a very small part indeed in the payment of debts between nation and nation. Hardly any specie changed hands in the payment of the enormous French indemnity to Germany; or in the transmission of the £400,000,000 or so which we lent to foreign countries in the years 1871, 1872, and 1873; or in the settlement of the £230,000,000 which we imported in ex-

cess of exports during the last four years, 1875 to 1878. The ebb and flow of bullion is on a scale far too minute to do much towards the settlement of international accounts. A country rarely possesses much more or much less specie than is needed for the purposes of currency and of the arts ; and never exports specie so as to trench, beyond a trifling extent, on the amount required for circulation. On the other hand, a country never retains much of the specie that is in excess of its circulation requirements. In the first case a comparatively small withdrawal of gold raises the rate of interest, lowers the price of goods, discourages importation and encourages exportation, so that the balance is soon restored. In the second case the redundant specie that remains after the wants for circulation are supplied lowers the rate of interest, raises prices, checks the outflow and attracts the influx of merchandise, and finds its way abroad, where its value is greater. This is constantly being exemplified by the action of the Bank of England. When it is wanted to attract a few millions of gold from abroad, the rate of interest is raised, and it flows in ; when the stock becomes redundant, the rate of interest falls, and the surplus beyond circulation requirements gradually disappears. The amounts which turn the scale are comparatively trivial. . So sensitive is the money market, that three or four millions abstracted from or added to the currency are quite enough to depress or to raise the rates of interest sufficiently to produce a counterbalancing effect either way. And yet there are people who fancy that the balances owing to us, or by us from and to foreign nations are paid in specie ! Last year (1878) we imported from abroad £63,000,000 in excess of what we exported. To send abroad that amount in specie, or one-half of it, or even one-quarter of it, would have been simply an impossibility.

Specie tends, like water, to find its level everywhere, the standard being the circulation requirements of each country. When short of that, its value is raised ; when in excess of it, its value falls, and it flows in or flows out of the country in proportion. It is under the operation of this law that

inconvertible paper money drives bullion out of a country. If its circulation requirements be partly supplied by paper money, less specie is wanted, and as a country does not long retain specie in excess of its circulation requirements, the precious metals (of course not the paper) are sent abroad where they are in greater demand and of greater value. If not a part but the whole of the circulation requirements be provided for by inconvertible paper money, then the whole of the specie (except perhaps a little hoarded here and there) will disappear.

If it be admitted that no diminution of, or increase to, the amount of specie required for the circulation of a country can be otherwise than both trifling and temporary, it follows as a necessary consequence, that "balances due by one country to another are paid directly or indirectly in commodities and not in specie, unless occasionally, to an insignificant extent."

CHAPTER II.

EXPORTS (UNLESS IN PAYMENT OF DEBT) NECESSITATE
IMPORTS TO THE SAME AMOUNT.

IF it is not specie that we receive in return for our exports, or that we send in return for our imports, there is no alternative but to conclude that they pay for each other. In the case of national indemnities, subsidies, loans, interest on loans and foreign investments, these are paid for by the export of goods without any return for them. But as far as commercial dealings go, it is utterly impossible to export goods without importing goods to the same amount, and *vice versâ*. Of course, this is a mere truism to those who are conversant with the subject, but there is a large number of people who look with dread on large imports, and it is necessary to make it clear to them that large imports mean large exports. If it be, as they deem, an advantage to import as little as possible, it follows as an indispensable consequence that they deem it an advantage to export as little as possible, and to have as little foreign trade as possible; for reduced imports necessarily imply reduced exports, and reduced foreign trade.

But let us suppose it possible for a country to export largely without importing in return any commodity except bullion, and to compel the retention of the bullion, by prohibiting its re-exportation, would that country be the richer for it? Certainly not. Let us work it out. There could be no increase of real wealth, for the bullion being in over-supply in respect to the commodities which it represents,

would fall in value in the exact proportion of such over-supply ; in other words the money price of all commodities would rise in that ratio. No one would be the richer for that, for the exchangeable value of all commodities (that is, their relation to each other) would remain precisely the same. If the working man received twice his former wages, he would have to pay double for all he consumed, which would leave him where he was ; indeed, the cost of living would rise upon him far more rapidly than he could, by remonstrance or strikes, &c., enforce a rise of wages from his employers. The gold and silver coins being but the counters used to represent the various objects that constitute the wealth of the country, the result of doubling the number of the counters would be, not to increase the wealth of the country, but simply to diminish the purchasing power of the counters, and make two of them necessary to represent the same commodity which was before represented by one.

Meanwhile the money-cost of production would have become so great that the foreigner could no longer afford to purchase the productions of that gold-glutted country, and exportation would cease. Foreign trade would, therefore, be totally suppressed, and the happy country would, like Japan of yore, live within itself, and be independent of the foreigner—a model result of the perfection of protective policy. True that there would be an accumulation of twice as much bullion as before, but as its purchasing power would be diminished by one-half the possessors would be no richer than those men abroad who had but half the quantity. The only way to obtain the full value of the accumulated bullion would be to allow its export, and sell it to the foreigner. But to export bullion means the importing of goods, for what else could be got in exchange for it ? And that means a total abandonment of the gold-accumulating policy. Yet what is to be done ? Gold may be piled up in mounds, but if it loses its purchasing power it ceases to be wealth. Bullion is only worth what it will fetch in the commodity-market. It will buy twice as much abroad as it

will at home. To utilise it, therefore, it must be sold to the foreigner. Then there would occur the converse of the operations that produced the glut of bullion. There would be large imports and small exports of goods, the protected interests would be ruined, internal commerce would be disorganised for a time, and everything would be unsettled until the superfluous bullion had been worked off, and its quantity reduced to the level of legitimate circulation requirements. But what can be said of a policy that led to such disasters as its reversal alone could remedy?

The supposititious case, however, of a country which let specie flow in but allowed none to flow out, never did actually occur, because no prohibitory measures ever could prevent the precious metals from being transferred from a country where their value is less to those countries where their value is greater. But the hypothesis serves to show that even if such regulations could be enforced, they would be productive, not of advantage, but of evil.

There are countries of which the imports habitually exceed the exports, and others in which the converse is the case. These apparent exceptions to the rule that every import must be balanced by an export are easily explained, and only tend to prove the rule.

In the first place, the balance on either side is not paid or received in specie, the movements of which, as we have seen, are quite insignificant in comparison with the balances in question. For instance, the imports into the United Kingdom exceeded the exports in 1877 by £80,000,000, and in 1878 by £63,000,000. If these enormous balances had had to be paid in specie, they would have swept away not only every coin, but also all the plate, watches, and trinkets, in these islands. For it is calculated that the entire circulation of the country, together with all the precious metals it possesses as articles of ornament or utility, from a gold tankard to a silver pencil-case, barely amount to the £143,000,000 in question. But far from the country being drained of its gold and silver, there is in it now quite as much as there was two years ago, before these

balances arose, and our circulation requirements have not been trenched upon in the slightest degree.

Neither has England obtained these £143,000,000 worth of goods on credit. Merchants do not, in these days, give or take the same long credits as formerly. If the enormous sum in question had to be paid for by England at all, it has been paid long ago. Indeed a certain portion of our imports are paid for long before the goods themselves come to hand. A cargo of wheat from California takes four to five months from the day of ship's sailing before it reaches England, but it is paid for by drafts on England at sixty days' sight, which, sent forward by rail and steam, mature one or two months before the wheat itself arrives here. No ! In whatever way we obtain the possession and use of this immense mass of commodities over and above what we send away, it is certain that the amount is not a debt owing by us. Indeed, it is just the contrary ; it is sent to us in satisfaction of debts owing to us for interest and dividends on money lent to, and invested in, foreign countries. We shall treat this subject fully later on, meanwhile we will just indulge in one or two remarks.

All wealthy nations which have lent money to other countries must of necessity import more than they export, since the annual income which they derive from those countries is paid them in goods. In the same way, the poorer nations who have borrowed money from other countries must of necessity export more than they import, since it is in goods that they pay the yearly interest on the money they owe. Indeed, the comparative wealth or poverty of nations may be pretty fairly measured by the amount by which their imports or exports are in excess of each other. That amount which a nation exports without receiving a return for it in imports, goes to pay a debt that it owes. That amount which a nation imports without sending out a return for it in exports, constitutes the payment of a debt owing to it. Consequently, instead of a large excess of exports being a matter of pride, it is a proclamation of indebtedness; and on the other hand,

to view with regret the increased excess of imports over exports, is to view with regret the increase of national income arising from foreign investments.

In the following pages it is always to be understood that in viewing the relation between imports and exports, allowance is made for that portion of either that is sent or received as payment for loans, war indemnities, subsidies, interest on investments &c., leaving the question of the commercial interchange of commodities to rest on its own merits.

CHAPTER III.

FUTILITY OF THE ATTEMPT TO EXPORT MUCH AND IMPORT
LITTLE.

ALL parties seem to agree as to the great advantage it is to a country to export largely. Each country produces some things that are useful and desirable to other countries, and whether from climate, soil, geological formation, natural aptitude or practice and education, it has some speciality in which it excels. It benefits itself by exchanging its surplus productions for the productions of other countries, and the latter are also benefited by the process. The more largely that country exports, the greater the benefit to itself and others. To put it more concisely—foreign trade is a universal benefit. Up to this point the unanimity of opinions is wonderful; and what we have said appears a mere enunciation of a string of truisms. But how are these truths acted on practically? By a persistent attempt on the part of the majority (at present) of nations to export a great deal and to import very little, ignoring the utter incompatibility of the two courses. All are agreed as to the great advantage it is to a country to export largely, only it must not be overlooked that those exports must be paid for in goods, since, as we have seen, specie is not used for that purpose (except sometimes provisionally and to a fractional extent). If, therefore, you import little, you can only export little. If you want to export much, you must import much. You cannot curtail your *bête noire*, imports, without curtailing to just the same extent your pet, exports. For every hundred pounds' worth of foreign articles which, by prohibition or by prohibitory duties, you prevent coming into your country,

you prevent one hundred pounds' worth of your own articles of production from going abroad. It cannot be repeated too often—because it is at the very root of the question—that to restrict imports is (by the inexorable law of logical sequence) to restrict exports to the same extent, and therefore to that extent, to restrict foreign trade. The delusion of wishing to sell without buying is equivalent to the old paradox of a valley without a mountain. In vain do the prophets of protection preach—"Let us have an extensive foreign trade to consist wholly of exports." It is simply an impossibility. As well say let us have shadows without light, or a square without corners. The doctrine that foreign trade is an evil would be, though a questionable one, at all events intelligible; but to maintain that foreign trade is a good while the influx of foreign commodities is an evil, is a palpable contradiction. Practically, all interchange of commodities is barter, and money is merely a common standard by which to measure their relative values.

CHAPTER IV.

IF PROTECTION BE BENEFICIAL AS BETWEEN COUNTRY AND COUNTRY, IT MUST BE BENEFICIAL AS BETWEEN PROVINCE AND PROVINCE.

IF to protect native industry by putting such duties on foreign commodities as shall keep them out of the market, and compel the consumers to deal exclusively with native producers, be beneficial to a country, the same system must, for the same reasons, be beneficial if applied to the various provinces of that country. Let us take an instance. Wales at present buys her cotton goods from Lancashire, and her pottery from Staffordshire. There are a few small cotton-mills and three or four manufacturers of coarse earthenware scattered here and there throughout the Principality, but these cannot develop themselves under the competition of English producers. Wales therefore demands "protection for her native industry," through the imposition of such protective duties on English cottons and pottery as shall keep them out of the Welsh market. Supposing the request granted, the Welsh cotton-mills and potteries at once receive great extension; capital and labour are diverted to them from other industries, and the entire Cambrian community pays a heavy tax in the shape of high prices for bad goods, in order to support a few native manufacturers, and in order that capital and labour should be transferred from profitable to unprofitable employments. We will suppose, however, that this is a benefit to the Principality. If so—by parity of reasoning—why should not the native industry of Monmouthshire be protected against the competition of the Carmarthenshire producers? And if we continue to carry out the principle to its logical results, we finally arrive at a state of

things which in primitive times did really exist—viz., that in which each family live on their own farm produce, and in clothes of their own spinning and making—a state of things in which there would be no imports, and which would afford complete protection against foreign competition.

We have put the case of England and Wales, but the reasoning equally applies to the various parts of which all large states are constituted. If America or France deem it good policy to protect their population from foreign competition at the expense of their foreign trade, they must, as a logical sequence, deem it good policy for California to be protected from the competition of New England, or for Provence to be protected from that of Normandy. Why should not San Francisco and Marseilles be protected against the cotton goods of Lowell and Rouen, so as to foster and develop cotton manufactures of their own? Why should the west of America be dependent on the east, or the south of France dependent on the north, for hardware or linen fabrics? The fact of San Francisco and Lowell, or of Marseilles and Rouen, being under the same national government does not affect the question of free trade or protection in the slightest degree, for it is an economic not a political question. If a free interchange of commodities between two regions be an evil at all it must be an evil inherent to the system itself, and not convertible into a good, if the two regions happen to be under the same government. If it be to the advantage of a community to restrict its trade with the rest of the world by lessening its imports, it can make no difference as to the truth of that doctrine whether the community be large or small, or whether it be independent or politically connected with other communities. We shall have occasion in a subsequent chapter to advert again to this subject.

CHAPTER V.

RECIPROCITY.

It has been proposed to enlarge our foreign trade by the following curious process. We are to compel foreign countries to take more of our goods by threatening that, if they do not, we shall take less of theirs. We are to induce our neighbours to extend their foreign trade by proposing, as the alternative, that we shall diminish our own. This is called the reciprocity, but it ought to be called the retaliatory system. If the foreign country with which we are negotiating yield to our pressure, we increase our foreign trade; if not, we diminish it. In the first case we increase our exports and consequently our imports too. In the second case we diminish our imports and consequently our exports too. It is to be left to the caprice, ignorance, or ill-will of a foreign nation to decide whether England is to lose a portion of her foreign trade or not. For it cannot be too often repeated that if we carry out our threat of importing less, it necessitates our exporting less to the same extent. It is proposed that we should enter into a formal international engagement to lop off a portion of our foreign trade, and in various other ways to do ourselves a serious injury, unless other people agree to alter their fiscal policy. Supposing that other countries decline acceding to our minatory invitation that they should reduce their tariffs, and that we accordingly impose such an import duty on articles that they have been in the habit of sending us, as shall reduce our annual importations thereof by £10,000,000, what then? No doubt they will not like it, but how shall we? A reduction of imports of £10,000,000 means a cor-

responding reduction of exports to same amount, and is equivalent to a diminution of our foreign trade to the extent of £20,000,000 per annum, to say nothing of the disastrous effects to every consumer in the country, of the rise that would ensue in the price of the articles which we ceased to import, and the numerous other evils which the change would entail. Are we prepared to enter into a compact that we will submit ourselves to all these calamities in the event of other countries declining to be coerced by us into free trade? It is surely better to leave things as they are than to resort to measures that shall subject us to such an alternative.

Fortunately, reciprocity possesses one great advantage—viz., it is impracticable. Among the articles which we receive from abroad there is hardly one that reciprocity can lay hold of. Ninety-one per cent. of what we import consists of raw materials, to tax which is out of the question, and the nine per cent. of manufactured goods—which is all that the entire world supplies to us—afford far too feeble a leverage to work with. This part of the subject has, however, been made so clear in various recent publications that we need not dwell on it.

There is the greater incongruity about the reciprocity system from its being advocated by many who, in all other respects, profess free-trade principles. For there is a manifest inconsistency in asking our foreign friends to admit our goods and so far adopt our policy of free trade, under the alternative that, otherwise, we shall shut out theirs and so far adopt their policy of protection. Since free trade teaches us that it is unwise in foreign nations to exclude our commodities from their ports, how can it be wise in us to carry out our threat and exclude their commodities from our ports? It is tantamount to proclaiming to the foreigner, "Unless you will become free traders we will become protectionists." We might just as fitly proclaim to the Turks, "Unless you become converted to the blessed truths of Christianity we will ourselves turn Mahometans." If free trade be a truth and a reliable principle it must remain an

immutable standard of right to those who understand and believe in it; and is not to be alternately professed and ignored in order to drive a bargain or gain an advantage. Those who entertain a firm conviction that free commercial intercourse is for the benefit of all men in all countries, will never consent to enter into conditional arrangements under which there may be a possibility of their having to act in opposition to that conviction. To adopt the reciprocity system would be the first step towards re-enacting the Corn Laws.

CHAPTER VI.

DIVISION OF LABOUR.

AMONG the many advantages conferred on mankind by free foreign trade—that is, by the unrestricted interchange of commodities between man and man throughout the globe—one of the most signal is that, in the highest degree and to its widest extent, it promotes division of labour. There is surely no need to expatiate on the important part which division of labour plays in multiplying and perfecting the products of human industry. Through its instrumentality the productive forces of the human race are employed in such a way as to lead to the most efficient and remunerative results. The larger the community or the aggregation of communities, the more effectually the division of labour can be carried out. In a country village, or in an incipient colony, a shop is a miscellaneous store, a dealer devotes his attention to a number of incongruous articles, and an artisan is a jack-of-all-trades. In a populous district labour is more divided, and to each individual is allotted some special work to do, which constant practice enables him to perform with greatly-increased efficiency. In large countries each province settles down more specially to certain forms of industry, according to a variety of influences, such as geographical position, soil, climate, natural productions, hereditary tendencies, or early education of the people, sometimes chance immigration, or other causes more or less accidental. By means of this division of labour each province produces more abundantly, more cheaply, and in greater perfection, the special articles to which it devotes itself, and all work harmoniously together for the common good. The benefits conferred by this division of labour would be lost if these

provinces were to split among themselves, and each determine on combining within itself all the various trades and industries which before formed the speciality, some of one province, some of another. All of them would be losers ; because, whereas before, in each of them capital and labour were concentrated on certain employments to which they were the most competent, they are now diverted from these and directed to a variety of others to which they are the least competent. If the pottery district in Staffordshire were to decide on diverting a portion of its capital and of its skilled labour to the creation of woollen and linen manufactures, in order to become independent of Leeds and Belfast, it is plain that the operation would be a losing one, chiefly because the immense advantages derived from division of labour and industrial organisation would be wantonly thrown away.

So, in the world at large, had it not been for the pernicious interference of governments with the natural course of things each country would have settled down more specially to certain forms of industry, and, were trade left free, would, through this natural division of labour, each produce cheaply and abundantly those special articles to which it had devoted its attention, and contribute, to the full extent of its productive power, to the wealth of the world. It would, moreover, follow that as each country would devote its energies to the production of those commodities which it was more specially fitted to raise, with a view of exchanging the surplus for such commodities as other nations were more specially fitted to produce, the amount of international traffic would be enormous, and foreign trade would be developed to an extent at present undreamt of.

It is in the performance of this function of interchanging the commodities of one country with those of another, that foreign trade is instrumental in promoting division of labour all the world over ; and whatever tends to curtail the former must impair the latter. Now, protection, by checking imports checks exports, and in that proportion curtails foreign trade. It is, therefore, clear that the protective

system interferes detrimentally with the division of labour. Indeed, if that system were carried out to its full extent by not only isolating, as it now does, nation from nation, but also province from province, community from community, and family from family, division of labour would altogether cease to exist.

Fortunately Nature herself interposes a limit to the isolating tendency of protection, by the diversity of the products yielded by different parts of the earth. The most thorough protectionist will admit that there are many foreign commodities which each country must either import or entirely deprive itself of. The utmost he can accomplish is to abridge foreign trade, he cannot altogether annihilate it. Thus, under the operation of a natural law, no nation can, without an intolerable degree of privation and suffering, be completely self-dependent, and man is, in order to interchange some of the products of one zone with those of another, compelled, apparently against his will, to exercise, at all events to a certain extent, the humanising influence of international commerce.

CHAPTER VII.

PROTECTION APPLIED TO YOUNG STATES.

THERE are two classes of states which, while admitting the theoretical truth of the free-trade system, claim exemption from its operation for contradictory reasons—young states because they are young, old states because they are old. The former say that were they old they would not dream of maintaining protection, but being young their case is exceptional. The latter say that, were they young they would not dream of hampering themselves with protection, which they now find so onerous, but being old their case is exceptional.

Let us take the case of the young states first. Their plea assumes the following shape. They are supposed to say, "As a theory, free trade is, we admit, unassailable, but, exceptionally, and for a time, it does not apply to young nations or colonies, for they would never learn to manufacture anything for themselves unless their early efforts were 'protected' from the sweeping rivalry of older and more expert producers. Give the native manufacturer a fair start by artificially fostering his infant labours, and when he has made some progress, and reached a certain amount of proficiency, we will then strip him of protection, let him breathe the bracing air of open competition, and adopt free trade without reservation." This doctrine will not, however, stand the test of close examination. On the contrary, it can, we think, be shown that it is precisely to young countries, or newly-founded colonies, that the application of the protective principle is most pernicious and indefensible.

These young communities are generally located in the midst of an inexhaustible area of fertile land which only

waits the application of human industry to be converted into mines of wealth. There is a strong demand for labour, which accordingly receives a high rate of remuneration. But so favourable are the natural conditions, that high wages are perfectly compatible with the cheap production of articles which foreign countries readily take in any quantity, giving in exchange such other articles as the young country could not produce except at a much greater cost. Its commerce is thus carried on under the most favourable possible conditions, and the working power of the young nation is all directed into the most profitable channels. It is now proposed to alter this prosperous state of things. Some of the articles hitherto obtained from abroad in exchange for the staple commodities of the young country are, at any cost, to be raised or manufactured at home, and the export of the staple commodities lessened in proportion. The capital and labour which are now working with admirable results are to be abstracted from the production of commodities so cheap and good that foreign countries willingly buy them, and to be devoted to the production of commodities so dear and bad that in order to compel the native consumers to buy them, the importation of the same articles from abroad has to be prevented by prohibitory duties. And who is it that is benefited by this policy? No one, not even the workman or capitalist whose labour and money are engaged in the new manufacture; they were fully and remuneratively employed before, and now competition keeps wages and profits down to the average level, while to enable them to get even that, the entire community has to be taxed. Certainly not the rest of the nation, for they have to subsidise the new industry to keep it going.

It is much more to the purpose to inquire who it is that is injured by this policy. Everybody is. All the consumers of the "protected" fabric, who are mulcted in the difference between the low price at which they used to get a good article from the foreigner and the high price which they now have to pay for an inferior article to the native. All the producers and traders in the country, who suffer from

the diminution that takes place in their foreign commerce in consequence of the reduced amount of the importations. And, finally, even the protected industries themselves; for, while the labour and capital employed in them obtain no more than the average remuneration, they are subject to one peculiar disadvantage: they exist on sufferance, and the system of protection by which they were brought into being, and under which alone they can live at all, is precarious, questionable, and liable to break down altogether at any moment that the nation may get tired of paying a yearly subscription for the purpose of artificially maintaining it. These industries, the nurselings of well-meaning but short-sighted patriots, are for the most part sickly, nerveless, and etiolated; and although reared into existence with the professed view that they shall some day stand the brunt of foreign competition, the day never arrives when they are equal to the struggle, and protection has either to be continued indefinitely, or its removal is their death-warrant.

As these fragile protected industries increase in number and importance they at last become formidable obstacles to the full adoption of free trade. As to encouraging their growth with the idea that at some future period they will willingly encounter, or be found able successfully to withstand, foreign competition, it is an error and a delusion of which most old countries furnish abundant illustrations. The time will come when those young countries which have acted in that vain hope, will bitterly repent having done so. They will have made sacrifices to create interests, the vitality of which is entirely dependent on the national bounty, and which will have either to be left to their fate, or will remain a perpetual drain on the resources of the country. Far better not to have called them into existence than to let them grow until the alternative faces you of either immolating them, or of unwillingly adhering to a commercial policy which you know to be injurious, and which you only adopted temporarily.

The plausible cry under which this mischievous policy is usually inaugurated is, "Do not let us pay the foreigner for

what we can produce ourselves!" The answer is obvious, "You do not pay the foreigner for his goods in the sense you mean it, that is, in money. Imports are paid for by exports, not in bullion." All commerce is barter. You simply exchange with the foreigner what you can produce better than he can, for what he can produce better than you can, and both parties are benefited. In prohibiting that exchange, you at the same time nullify both the sale of your own, and the purchase of the foreign commodity. In order yourselves to produce the foreign article, you have to produce so much less of the native article which you would otherwise have given in exchange for it; for the same capital and labour cannot produce both, and by stopping the import of the former you stop the export of the latter. The phrase, "Do not let us pay the foreigner for what we can produce ourselves," correctly interpreted, means "Do not let us exchange our productions for those of the foreigner," or, in other words, "Do not let us have foreign trade."

CHAPTER VIII

PROTECTION IN OLD STATES.

THE doctrine that we have just examined—as to young states being the only proper exceptions to the universal adoption of free trade—offers a curious contrast to another which asserts the precise contrary, viz., that it is the old states, and not the young ones, that are entitled to form the exceptions in question. The plea may be condensed into the following shape:—"As a theory, free trade is, we admit, unassailable, but, exceptionally, it does not apply to old states, in which interests have grown up under the shelter of protection for such a length of time, and have attained such dimensions, that the change now to a free trade-policy would bring with it wide-spread ruin and desolation, and must therefore be avoided. Would that these interests had never been created and fostered by protective laws! But, unfortunately, here they are, and we shrink from the task of disturbing them. Of course, young states would not be so foolish as to encumber themselves with such burdens, but our forefathers were unacquainted with political economy, and hence the errors of which we are now feeling the effects." We may observe, in the first place, that as the truth of the free-trade theory is not controverted, and as the only question is whether the positive and permanent advantages which its adoption offers would compensate for the temporary disturbance which it would occasion to protected interests of old standing, we need only address ourselves to the latter topic.

To paraphrase the old Roman axiom, *salus populi, suprema lex*, we may say that the good of the people ought to be the first and paramount consideration. That the interests of

certain limited classes should be consulted to the detriment of the country at large, that all should be injured in order that a few should be favoured, is a doctrine which has too often been acted upon, but has never been unblushingly proclaimed, and which in the present day will be denounced as utterly false and untenable. And yet that is, in plain words, the doctrine advocated in the foregoing plea. It implies opposition to all change and denial of all progress, merely because the change might be injurious to a few, though the progress would be beneficial to the many. It is, no doubt, to be regretted that the interests which stand in the way of the public good should ever, from a false policy, have been placed in that position, and we may sympathise with the individuals who may prove to be the innocent victims of an evil system, but that sympathy must not blind us to the fact that the community had for a long period been suffering from the existence of the abuse, nor still less induce us to stay the hand that is lifted to destroy it. The longer the evil has lasted, the more just and necessary it is to put a speedy end to it; and since we know that the change is for the national good, our desire to confer a permanent benefit on the community must overrule our regret at abolishing privileges by which a few gained and all the rest suffered.

All improvements in the machinery by which our social requirements are supplied involve changes that are injurious to some class or other. Railways occasioned a vast displacement of the capital and labour employed in the previously-existing modes of conveyance. The adaptation of electricity to lighting purposes would, if successful, occasion heavy losses and deal a severe blow to the innocent holders of shares in gas companies; and so on in hundreds of analogous instances which are of constant recurrence. Yet no one has ever seriously maintained that these improvements were to be "prohibited" in order to "protect" the interests which such improvements interfered with. Even a century ago, when the buckle-makers of Birmingham petitioned Parliament to protect them, by prohibiting shoe-ties, their

request was refused, although it was in perfect consonance with the protective principles that then prevailed.

Under the Tudors and the Stuarts the protective system in England assumed the shape of patents and monopolies under the crown. By arbitrary edicts consumers were not left free to buy where they could buy the best and cheapest wares, but were compelled to deal for certain articles with certain "protected" parties only, who frequently were new and clumsy at their trade. This system became so costly and oppressive that the Commons frequently remonstrated with Elizabeth and James against it as an intolerable grievance. It was accordingly alternately remedied and renewed, until the sturdy Puritans came and put an end to it altogether. The people of Europe and America who at the present day suffer by the protected trades, as we, of old, suffered by patentees and monopolists, and who also are "not free to buy where they can buy the best and cheapest wares, but are compelled to deal for certain articles with certain 'protected' parties only," have not yet thoroughly realised the situation, and suffer in silence. The fact is, that those who are pecuniarily interested in the maintenance of high duties and protective laws, are few in number but wealthy, energetic, clamorous, and united; while the people, whose individual loss is small, though the aggregate is large, are apathetic and frequently misinformed and misled. It is hardly therefore to be wondered at that the rulers of nations should, hitherto, have found it expedient to court the alliance of the former, instead of siding with the inert and indifferent mass of the public.

But if statesmen are sincere in their recognition of the advantages derivable from the adoption of free trade, and only hesitate from the fear of injuring "old protected interests," let them bear in mind that this disturbance of interests is limited and temporary, since, as has been the case with all new movements, whether from scientific or political causes, the displaced capital and labour rapidly get re-distributed into other channels, while the improvement is universal, permanent, and expansive. Moreover, if it should

be absolutely necessary, the disturbance which is so much dreaded can be mitigated by graduating the fiscal changes, and spreading them over a certain space of time. As a certain quantity of the previously-prohibited articles gradually obtained admittance from abroad into the country, its exports would increase to the same extent, and to the production of this increased export, the capital and labour disengaged by importing what was before produced at home, would by degrees be applied. This process would go on until the protective duties were wholly removed, and very soon the "old interests," which were dependent for a precarious existence on a subvention from the rest of the community, would become "new interests," vigorous, self-supporting, and contributing to the wealth of the country instead of subtracting from it.

CHAPTER IX.

WHAT ENGLAND IS TO DO IF SHE BE THE ONLY NATION
THAT ADOPTS FREE TRADE.

- It has sometimes been asked, "Of what avail is the adoption of free trade to a country if every other country adheres to the protective system? What is a single free-trading nation like Great Britain to do when every other nation is tightening the bonds of restriction, and isolating itself as much as it can from the rest of the world? What is to become of our foreign trade if all other countries resolve on having as few dealings as possible with each other and, as a necessary consequence, with us?" In the first place, let us observe that this question must proceed from a free trader, and must pre-suppose that the curtailment of foreign trade is an evil. For if it were not so, and if the querist deemed commercial isolation to be an advantage, what room has he for complaint if foreign nations, by carrying the protective system out in its integrity, should force upon us the blessings of isolation? If it really be the final object of sound commercial policy that each country shall supply its own wants (*far da se*) and be independent of the outer world, then it must be absurd for us to hanker after foreign trade. Why should we repine at protection indirectly producing the same effects on us as on its own votaries? If those effects are beneficial to them they must be so to us. It is evident then that the querist is a free trader, only he is scared and shaken by the unanimity with which free trade has so far been scouted by foreign nations. True that all their scientific inquirers are in favour of it, but the "still, small voice" of science is drowned in the loud clamour of the interested,

the people not understanding the question are silent, and the rulers side with the active and energetic.

That protectionist doctrines and policy do prevail in almost all countries but England, and among the people as well as among the governing classes, is very true and somewhat strange. Not strange, perhaps, among the people, to whom the old cries, such as, "Keep the balance of trade in your favour"—"Sell much, buy little"—"Do not be dependent on foreigners"—and similar fallacies in the shape of aphorisms have been handed down traditionally as the condensed wisdom of their ancestors. But certainly strange among the governing classes, whose business and duty it is to study and make themselves masters of a subject of such vital importance to the people whose destinies they rule. On the question of the truth or falsity of free trade principles, depends the policy which involves the greater or lesser well-being of many millions of human beings. The statesman who, in his fiscal measures, acts on the protective principle without examining with the utmost care and conscientiousness whether it be a true and reliable one, or whether it be (as political economists assure us) a false and misleading one, is utterly unjustifiable. A grave responsibility rests on him if he persists in ignoring or neglecting the warnings of scientific experts who have devoted years to the investigation of the subject, and stakes the welfare of a nation on a line of policy which they utterly condemn.

It is a remarkable fact that among the eminent men who have made political economy their special study there is not one who does not uphold free trade and pronounce protection to be a disastrous error. In the Index to the Catalogue of the London Library there is a list of seventy-seven authors who have written on that science. Most of their works are written in English and French, but several are in German, Italian, and Russian. Here, then, are seventy-seven professional witnesses, men who have investigated the subject thoroughly, and whose opinion must, therefore, carry great weight. What do they say? By a majority of

seventy-five to two (the two being eccentrics of no note), they declare that the protective system is a mistake most injurious to the country that adopts it. What a startling contrast ! The scientific men who have studied the subject, recommend one line of policy ; the statesmen who have not, mostly act on the opposite. For a statesman to justify to his own conscience the adoption of a protective policy, he must have arrived at a moral certainty that all those men who have scientifically analysed that policy, and as a consequence have unreservedly condemned it, are utterly mistaken. Their verdict, however, will outlive his action, for the conclusions of eminent thinkers are not to be scornfully ignored, and the Napoleonic contempt for *Messieurs les idéologues* is a thing of the past.

One thing is certain : there can be no compromise between the two systems. Either the one or the other must be irretrievably bad, and it is almost impossible to adopt the one without totally discarding the other. The fiscal measures requisite to carry out protection are in diametrical opposition to those called for by free trade. The question, therefore, as to which is right and which is wrong is too important to be left in abeyance. It ought to be settled at once and for ever. Scientific men have done their part, and unanimously decided in favour of free trade. It remains for the people and their rulers to institute a thorough examination of the subject, and to give practical effect to their decision. Symptoms of awakened attention to this all-important matter are now apparent in France, Germany, and the United States. In all these countries the resisting power of vested interests is strong ; but, on the other hand, those nations abound in able men and profound thinkers, and error will not live long under the "fierce light" that they will throw upon the question—a question that has hitherto been rather neglected abroad, as being too abstract and technical for general discussion.

There is a mistaken notion afloat in the minds of some of our neighbours that of two countries that trade together

one gets a larger profit than the other, and that England, for instance, in her mercantile transactions with other nations, reaps from them more advantage than do those she trades with. But a little consideration shows that this is impossible. The act of trading, whether by sale, purchase, or barter, is a purely voluntary one, and unless it suited both parties it would not take place. A man buys because he prefers the article that he purchases to the money which he gives for it, and he sells for the converse reason; but that preference is spontaneous, and he yields to his own wish, not to compulsion. When two persons interchange commodities, each is actuated by the belief and expectation that he reaps a benefit from it. National trade is but the aggregate of individual mercantile operations, just as national profit is only the aggregate of individual gains; and individual traders have so keen a perception, and so eager a desire for lucrative traffic, that they may safely be trusted only to do business when they see a fair prospect of gain. And if they gain, what matters it if the parties they deal with gain too? It is of the very essence of commerce that buyers and sellers, importers and exporters, should all be benefited. In fact, were it otherwise, no interchange of commodities would take place at all; for who would buy were it only profitable to sell? And who could sell if there were no buyers? For a government, therefore, to restrain its subjects from buying because the seller is benefited, or from selling because the buyer is benefited, cannot be deemed a rational policy. If England has profited largely by her foreign trade, it has not been because her percentage of gain has been over the average (for it could easily be shown that it has generally been below it), but simply because of, and in proportion to, the enormous dimensions to which it has reached.

Of this enormous expansion of her foreign commerce, England owes the greatest part to her adoption of free trade. The development of her commercial intercourse with the rest of the world since the repeal of the Corn Laws in 1846,

and of the Navigation Laws in 1849, is marvellous. In 1840 our combined exports and imports were £172,000,000; in 1878 they were £611,000,000. True that in most countries some increase of foreign trade has taken place within the same period, but in many cases it has only been slight, and in no instance has it progressed in anything like the same ratio. It is open to all nations to obtain similar results by the adoption of the same commercial policy. That free trade causes an increase of imports is admitted by its opponents, and, indeed, forms the very ground of their complaint, and since increased exports follow as a necessary consequence, there ensues a proportionate development of foreign trade.

And that all nations will sooner or later adopt the free trade system there is not, we conceive, the slightest room for doubt. How slow the world is in recognising and acting upon scientific truths there is many a precedent to show. Almost every improvement has had to make its way through a long period of neglect, misconception, prejudice, and, where "old interests" were encroached upon, positive and obstinate resistance. A theory may be slighted, misrepresented, pooh-poohed, and even persecuted for a time, but if it possesses the vitality of truth, the day will come when it will pierce through all opposition and triumph in universal recognition. So will it be with free trade. It has become a scientific truth, and has gone through the ordeal of the most critical examination. All who have seriously studied it have become converts. It is neglected, not confuted. It is as a policy, not as a theory, that it has opponents. This discrepancy, however, cannot long prevail. Practice has a slow but steady tendency to conform to principle. The mass of the people do not yet clearly see how injuriously they are affected by a protective policy, because the tax which it inflicts on them is paid indirectly, and as it were imperceptibly, in the shape of the enhanced prices that they have to give for the protected articles. If that tax were collected from them directly and avowedly, their eyes would quickly be opened. They would soon begin to

inquire why they should be asked to subscribe so much a year in order that A B & Co., and C D & Co., should be enabled to make money out of a losing business. And when the process of inquiry is once entered on, discussion and analysis will lay bare the truth, and a general reaction will take place in favour of free trade.

Meanwhile, all that England needs to do is to pursue her way unmoved, trade with other nations as much as they will let her, be ready to multiply dealings with them when they are, and open up new markets when opportunities offer. As to trying to force our intercourse upon others by raising our tariffs against them, we have already shown that all such retaliatory measures are much worse than useless, and have for effect merely to wilfully abridge our own foreign trade, in order to spite those who refuse to increase theirs.

CHAPTER X.

IMPOSSIBILITY OF ENCOURAGING EXPORTS AND AT THE
SAME TIME CHECKING IMPORTS.

FORTUNATELY no government and no legislation can succeed in altogether putting a stop to international trade. The world is preserved from the complete application of protectionism by two important influences. The one is the fact that there are several commodities which a country must either do without or import from abroad, as the native production of them is impossible. No amount of protection could enable England to produce her own wine, or France to raise her own cotton, or America to grow her own tea. To some extent, therefore, Nature compels nations to interchange commodities, and thus she points the way to free trade.

The other influence is almost as forcible and effective. It arises out of the intense desire that exists everywhere, and is perhaps most intense in protected countries, to sell, that is, to export, to the greatest possible amount. Indeed, this eagerness to export did formerly often, and does even now sometimes, prompt governments to grant bounties on the exportation of certain articles, so as to enable the producer to sell his goods cheap abroad, while he gets the full price of them at home. This simply amounts to taxing the community in order to make a present to the foreigner of a portion of the proceeds. This absurdity, however, proved too flagrant to endure, and has therefore nearly (not quite) become obsolete. All governments and all nations are exceedingly anxious to swell the amount of their exports to the rest of the world, and, strangely enough, this passion for selling co-exists with a vehement aversion to buying, or

importing from other countries ! As if the achievement of both these purposes at once were not an utter impossibility ! It has been clearly shown that if a community desires to export, it must, from the nature of things, import in proportion—and if it determines on curtailing its imports, it must be content, in a similar ratio, to curtail its exports.

As we have elsewhere pointed out, some nations do indeed export more than they import, but that is because they are in debt to the rest of the world, either for interest on loans, &c., or for war indemnities, or for tribute to a suzerain power, and such like. These debts are provided for, not by the transmission of specie, but by the export of goods, and for that portion of their exports those countries, of course, receive no imports in return. So likewise some countries (among which England stands foremost) import more than they export, because the rest of the world is in debt to them, and this excess of imports being sent in payment of that debt, no return is made for it in the shape of exports. But beyond the amount of such debt-payments, it is an incontrovertible fact that for every hundred pounds' worth exported, a country must receive back one hundred pounds' worth of foreign commodities. If you determine on only importing fifty pounds' worth of foreign commodities, you must be content with only exporting fifty pounds' worth of your own productions. Such must of necessity be the final result of your commercial transactions with the world at large. Of course, with one or more individual countries, your separate account may stand differently ; you may export largely to them, and get but few imports from them in return ; but your imports will be, in the same proportion, larger from, and your exports smaller to, some other countries, so as to restore the equilibrium, and in the aggregate, your imports and exports will balance each other.

It is this passion for exporting which practically acts, to a certain extent, as a counterpoise to the aversion of protectionist countries to the importation of foreign commodities. They cannot indulge their love for selling, and,

at the same time, indulge their repugnance to buying. Of this they are unaware, and they delude themselves by a vain expectation that they can compel the foreigner to pay in specie for the goods which they sell to them. But it is not so, it cannot be so, and even if it were so, it would do them no good, for the reasons which we have given elsewhere. Those goods will be paid for in goods. Practically and substantially all commerce is barter.

Some have proposed, as a milder and more admissible form of protection, that protective duties should be levied on foreign manufactured goods only, and not on agricultural produce or raw materials. The reason assigned is that the former represents a larger percentage of capital and labour than the latter class of commodities. This distinction, if admissible, would not meet any of the objections to which we have shown the protective system to be open. But it is not admissible. The only difference (and that a slight one) is that the element of rent of land enters rather more directly into the value of raw material than into that of a manufactured article. But otherwise, fifty pounds sterling's worth of the former represents as much of wages of labour and remuneration to capital as fifty pounds' worth of the latter. The identity of their market price shows the identity of their exchangeable value, and, as nearly as possible, the equivalence of their cost of production. There is undoubtedly more labour and capital absorbed in a £50 pianoforte than in a ton of pig iron at £5 per ton; but not more than in ten tons of the same pig iron, since they also represent the same sum of £50. It is not the question of relative bulk or weight which we have to consider, but that of relative value, and whether it is expensive cutlery or cheap raw cotton that constitute the import, the same value of each represents, as nearly as possible, the same amount of capital and labour.

CHAPTER XI.

FREE TRADE PRACTISED INTERNALLY BY ALL PROTECTIONIST STATES.

THE avowed and no doubt sincere object of the protectionist statesman is "to foster native industry, by employing it to supply the wants of the community, instead of paying tribute to the foreigner by resorting to him for the supply of those wants." This is only the isolation principle in another shape. If you wish for an outlet for your productions, you must submit to employ and pay the foreigner for his productions to the same value, for you will have to receive them in payment for yours. If, on the other hand, you wish your country's wants to be supplied exclusively by its own inhabitants, you must cease interchanging commodities with the outer world, lose the advantages of division of labour on a large scale, and, as the Japanese formerly did from choice and on system, or as our remote ancestors did from ignorance and necessity, shut yourselves up within your own circle of resources.

But even then you are not relieved from the detested presence of free trade. It reigns paramount within your own country. It may not exercise its baneful influence on your relations with other countries, but it does exercise its full influence (baneful or not) on the relations of one part of your country with the rest. All the commercial intercourse that takes place between the various provinces of your empire is entirely governed by free trade principles. Yet it is not found that this unrestricted competition benefits some to the injury of others. On the contrary, each part works harmoniously with the rest, and all are left free to adjust their dealings under the natural laws of supply and demand. Each district settles down to that form of industry to which circumstances have best adapted it, and requires no Government interference to protect it against the competition of

neighbouring districts. All trades in all places within that country are open to all men, and no one would deem it to be a benefit that a heavy tax should be imposed on the cheap and good wares produced in one spot, in order to force the sale of dear and bad wares produced in another. In fact, the principle of free trade has been, and is, acted upon to the fullest extent by all governments within the limits of their own dominions. There may have been some few apparent exceptions, such as the *octroi* duties on the introduction of certain commodities into some Continental towns, and similar local taxes, but these were levied for the purpose of revenue, not of protection. In the completest and widest sense, it is a fact that no government, however protectionist in its practice towards other countries, has ever acted counter to free trade principles within the range of its own empire.

It is not easy to justify this inconsistency. If free trade be an evil as between the United States of America and the other countries of the world, how can it be a good as between, say, Pennsylvania and the other states of the Union? The economic relations of these to each other are not in any way affected or modified by the fact of their being members of the same political confederation. The native industries of Kentucky and Illinois remain exposed to the competition of the well-organised and old-established industries of New York and Massachusetts in spite of their being all represented in Congress at Washington. If protection be so beneficial to the country at large, why not extend its blessings to each of the states of which it is composed?

Until recently, Italy was split up into several different realms, and each was (of course for the "good of the people") "protected" against the productions of the other. But when the Italian states merged into one nation, those restrictions were removed. If those protective shields against competition had really worked efficiently for the "good of the people," their removal must have occasioned great suffering and distress, but no "cry of anguish" has reached us on that score. If, twenty years ago, it had been

really good for the people of Piedmont and Naples respectively to have had few commercial dealings with one another, the mere accident of a change of government cannot have altered the eternal fitness of things, or made it right now, as it was wrong then, to leave those two populations exposed to the injury of unrestricted commercial intercourse with each other.

Again, let us imagine the deplorable contingency (which we most sincerely trust may never occur) of the Western and Eastern States of America separating and forming two several independent republics, what then about protective customs' duties? If it be a wise and beneficial policy for the present United States to protect its people against the cheap manufacturers of old Europe, it would follow as a necessary consequence, that it would also be a wise and beneficial policy for the Western republic to protect its people against the comparatively cheap manufactures of the older Eastern states. To judge by all historical precedents of what men would do under such circumstances, we should infer that the government of the new dominion would undoubtedly (unless they were very much in advance of the present state of public opinion in America) adopt the usual old policy of "fostering native industry" by means of the protective system. But here again there would be a manifest and palpable inconsistency. If, in case of separate sovereignty, the welfare of the Western republic of America required the adoption of a protective policy against the Eastern states, why should such not be required now? The pleas as to fostering native industry, protecting infant manufactures, and being independent of extraneous supplies are as urgent at the present time as they would be then. Why are those pleas to be only attended to in case of secession, and disregarded while the Union is maintained? Or are the same objects attained by internal free trade under the present form of government which, under another, would only be attainable by protection?

Each state of the Union is at present exposed to the competition of more than forty other states and territories

extending over a vast continent and occupying a space equal to one-fifteenth of the habitable part of the globe, and yet none of them have uttered a syllable of complaint in respect to the system of free trade which prevails among them, or asked for the enactment of defensive tariffs to protect them against each other. Yet, at the same time, the aggregate of these forty or fifty states fancy that they cannot get on without a defensive tariff to protect the entire body of them from other countries. If one-fifteenth of the world can prosper under internal free trade, why should not a third, or a half, or indeed the whole of the world?

But let us glance at another contingency. At present, the United States and the Dominion of Canada form two separate and distinct governments. Accordingly, each is hedged round by *chevaux de frise* of tariffs, and their commercial intercourse is checked and hampered by impost duties and restrictions having for avowed object the protection of their respective populations and the increase of their prosperity. According to the protectionist theory, each nation is benefited by these arrangements, and would be injured by their removal. Very good; but let us suppose that political changes were to bring about the admission of Canada into the Union, and a fusion of the two dominions into one federal republic, what would happen with regard to the fiscal regulations which are now declared to be essential to the prosperity of both populations? Would they be persevered in? It is not likely; it would be an unexampled anomaly that one part of a republic should be debarred from free commercial intercourse with the other parts. Consequently, the principle of free trade which now governs the commercial relations of the different states of the Union among themselves would be extended to Canada, and the results of unrestricted commercial intercourse between the two dominions, now so carefully guarded against, would have to be faced. It is pretty evident to us that those results would be found, not only not to justify protectionist apprehensions, but indicative of largely increased prosperity to all.

CHAPTER XII.

CONCLUDING REMARKS.

SOMETIMES objections are made to free trade, not founded on any imperfection in the theory itself, but arising from altogether extrinsic considerations. But such objections are quite irrelevant. Each science has its own province of inquiry, and its conclusions are confined to the topics that form the special objects of its investigation. The purpose of political economy is to ascertain the laws under which human industry can produce the most ample results, and the "wealth of nations" be best developed. It is no impugnement of the truths which it propounds, to contend that there are considerations foreign to the science itself which render it inexpedient to act on its conclusions. In an æsthetical point of view, factories may be objects too hideous to be tolerated, and it may be better to leave a coal-mine unworked than to destroy the lovely trees which adorn its surface. In a political point of view, it may be better that each country should keep itself independent of foreign commerce, so as to be prepared, at any moment, without feeling its loss, to wage war with other nations. Or, in a theological point of view, it may be better for men not to devote too much attention to such subjects, as tending to seduce their minds into mammon-worship. But it is the business of the statesman, not of the political economist, to examine these allegations, and allow them practically such weight as they may deserve. The mission of political economy is confined to the elucidation of economic principles and their application to plutology or the science of wealth; and it is no refutation of the truth of its conclusions that objections may be raised to their practical adoption, which arise out of a quite different order of considerations.

We have confined ourselves, in these pages, to some of the most salient points connected with the antagonism between free trade and protection. There are, however, a variety of subsidiary and collateral topics that might furnish ample matter for contrasting the two principles. To quote only a few instances, we might enlarge on the tendency of hostile tariffs to awaken and maintain feelings of irritation between one country and another, and on the contrary tendency of large international dealings, through free trade, to bind nations together by a strong community of interests, and thus to check and discourage war. We might advert to the beneficial operation of free trade in partially obviating "gluts," that is, the over-production of some articles as compared with others, and in rendering the commercial world far more sensitive than it now is to variations in supply and demand, so that incipient fluctuations would be quickly checked, and would never reach the extreme range which they now attain. We might point out that free trade would tend to equalise prices throughout the world, and would pave the way to many important improvements, such as the general unification of weights, measures, and coins; perhaps even to the assimilation and codification of the laws which now in each country variously affect commerce. But we must refrain from dwelling on these matters, for this does not pretend to be an exhaustive treatise on free trade; it is simply a rough sketch of its principal features as they practically affect the commerce of the world.

We shall now proceed to examine the relation in which free trade stands to the commerce of the United Kingdom, and see how far the present depression of trade may or may not be connected with its adoption here about thirty years ago.

PART II.—ENGLISH COMMERCE.

CHAPTER XIII.

POPULATION, DEBTS, AND TRADE OF THE WORLD.

THAT there exists a great and general depression in trade throughout the United Kingdom is so notorious and recognised a fact, that it is needless to do more than to assert it. This depression has been growing in intensity since the year 1874, when it only just began to be perceptible; and the hopes that have from time to time been entertained that it had reached its maximum, and that a reaction was at hand, have hitherto been disappointed. What are the causes that have led to this untoward state of things? Are those causes of a permanent, or only of a transitory, nature? If the former, are they remediable by a change in our commercial policy? If the latter, when may we look for their ceasing to operate, and can any measures be devised to accelerate that result?

These are the inquiries to which we purpose to turn our attention, and in order to give shape and method to our investigation, we shall examine and analyse the following propositions, which are all intimately connected with the subject in hand:—

1. The amount of our foreign trade (combined imports and exports) has been diminishing since 1874.
2. Since 1874 the price of almost every commodity, British and foreign, has been gradually falling—in many cases, considerably, but, more or less, in nearly all.
3. Since then, there has been greater competition than before in neutral markets, between the English and foreign producer.

4. The wages of labour have been forced down by the decline in the price of goods.

5. Since 1874, there have been heavy failures among merchants, manufacturers, and banking establishments.

6. Since then, the excess in the amount of our imports over that of our exports has exhibited a marked and unprecedented increase.

7. The inactivity of trade and the decline in prices have during the last few years been more or less general throughout the civilised world.

8. The peace of Europe has been much disturbed the last few years by actual war and by rumours of war.

9. Since 1874, there have been some additional large national defaulters in the payment of interest on the loans made to them.

10. Since then, we have made fewer foreign loans, and embarked in fewer foreign enterprises than before.

11. There is, and there has been of late years, a larger amount in the country than usual of surplus unemployed capital.

Before we enter on the consideration of these various topics, we must put forward an important statistical document which we have been at some pains to draw up as accurately as possible. It exhibits at a glance a comparative view of the population, of the indebtedness, and of the foreign trade of every country that can make any pretension to be called civilised. By a reference to it, it will be seen that, 1st. it records the financial and commercial position of fifty-six states whose united population amounts to nearly 1,200,000,000—that is, within about 200,000,000 of the computed population of the entire globe.* 2nd. The amount owing collectively by the specified fifty-six govern-

* From the reports of the latest African travellers, we are led to think that the population of Central Africa has hitherto been underrated, and we are inclined to estimate the number of the uncivilised nations of the earth (those not enumerated in our table) at nearly 400,000,000; which would make the total population of the earth about 1,600,000,000.

ments to a number of individuals residing in all parts of the world, for loans made to them, is £4,818,000,000, and on that sum the lenders are entitled to yearly interest according to certain stipulated rates. Seventeen states, however, have ceased paying interest on their debts, amounting to £929,000,000. On the remaining amount, viz., £3,889,000,000, interest is being paid, and of this interest, we are led, by what research we have been able to make, to estimate the average rate to be $4\frac{1}{4}$ per cent. Assuming this to be correct, the holders of these various government stocks are in the annual receipt of £165,000,000 from the aggregate of the indebted countries. It may be remarked that these loans were contracted for at somewhat less than the nominal capital, not all of which therefore passed into the borrowers' hands, but they, nevertheless, engaged to repay the nominal capital in full, and meanwhile to pay interest thereon.

In the customs' returns of a country's imports, the amount is always in excess of what has actually to be paid to the foreigner; for the valuation taken of them includes freight, insurance, and other expenses, whereas the foreign sender has only to receive the net amount after deduction of those charges. To him the importer has only the cost of the goods to pay; he has to pay the freight to quite a different person, viz., to the ship-owner. What percentage must, on the average, be deducted from the customs' valuation of imports in order to arrive at the correct sum which accrues to the foreign sender is a question of some difficulty. On cheap and bulky articles the percentage of freight is large, as is also the insurance when the voyages are long. On the other hand it is the reverse on compact articles of value and on short voyages. Taking everything into consideration, we have come to the conclusion that we shall be near the mark in estimating the average of freight, insurance, and other minor charges at 11 per cent. on the customs' valuation of imports. Accordingly, if we take 11 per cent. off the £1,456,000,000 which we find imported from all countries during the one year given, it reduces the amount to

£1,296,000,000, which is within a mere trifle of the £1,316,000,000 exported, in totality, by the same countries during the same year.

TABULAR VIEW OF THE POPULATION, INDEBTEDNESS, AND FOREIGN TRADE OF ALL THE (MORE OR LESS) CIVILISED COUNTRIES OF THE EARTH.

- N.B.—1. In the figures given 00,000's are omitted : that is, our figures represent millions and tenths of millions. Thus, 5.9 stands for 5,900,000; £16. for £16,000,000, and so on.
2. The population, debt, and annual trade given are those of the latest year of which we could obtain a record.
3. The annual foreign trade given is the aggregate of both imports and exports.
4. The National Debts include both the home and the foreign, but not the floating debts.

States.	Popula- tion.	National Debt.	Annual Foreign Trade.	Divided into	
				Imports.	Exports.
Algeria	2.9	...	16.	9.	7.
Argentine Confedera- tion & Buenos Ayres	1.8	21.	17.	7.	10.
Austria and Hungary	37.	343.	103.	52.	51.
Belgium	5.	47.	185.	98.	87.
Bolivia	2.	3.3	2.	1.	1.
Brazil	10.	74.	32.5	15.5	17.
Canada	3.7	30.	35.	20.	15.
Cape Colony	1.4	6.	9.	5.	4.
Ceylon	2.4	.8	10.1	5.6	4.5
Chili	2.	12.7	13.	7.	6.
China	425.	2.	45.	21.	24.
Colombia	3.	14.7	3.3	1.3	2.
Costa Rica	.2	3.4	1.5	.6	9
Denmark	2.	10.	23.	13.	10.
Ecuador	1.	3.3	.7	.3	.4
Egypt	17.	87.	16.	4.	12.
France	37.	750.	367.	174.	193.
Germany	43.	190.	324.	196.	128.
Greece	1.5	15.	8.	5.	3.

States.	Popula- tion.	National Debt.	Annual Foreign Trade.	Divided into	
				Imports.	Exports.
Guatemala ...	1.2	£ .9	£ 1.2	£ .6	£ .6
Haiti ...	.6	3.	2.5	1.2	1.3
Honduras ...	.3	6.	.4	.2	.2
India ...	240.	127.	114.	49.	65.
Italy ...	27.	400.	85.	45.	40.
Japan ...	33.	3.5	10.3	4.8	5.5
Java ...	18.	...	17.	7.	10.
Mexico ...	9.3	79.	10.7	5.7	5.
Morocco ...	6.	...	2.6	1.5	1.1
Natal... ..	.3	.3	1.9	1.	.9
Netherlands ...	3.9	80.	104.	59.	45.
New South Wales ...	.6	12.5	27.6	14.6	13.
New Zealand ...	.4	20.7	13.3	7.	6.3
Nicaragua ...	.4	2.	.3	.2	.1
Paraguay ...	.2	3.	.2	.1	.1
Persia ...	5.5	...	3.9	2.4	1.5
Peru ...	3.2	49.	12.	4.	8.
Portugal ...	4.	85.	14.	8.	6.
Queensland ...	.2	6.5	6.8	3.2	3.6
Roumania ...	5.3	21.	9.4	4.1	5.3
Russia ...	88.	350.	109.	59.	50.
San Salvador ...	.4	.9	1.1	.5	.6
Servia ...	1.7	...	2.9	1.3	1.6
Siam ...	9.	...	2.8	1.	1.8
South Australia ...	.2	4.3	8.9	4.	4.9
Spain ...	17.	460.	31.	15.	16.
Sweden and Norway ...	6.	14.	46.	27.	19.
Switzerland ...	2.	1.3	6.	3.5	2.5
Tasmania ...	.3	1.5	2.7	1.3	1.4
Tunis ...	2.7	5.	1.1	.4	.7
Turkey ...	21.1	194.	32.	14.	18.
United Kingdom ...	34.	778.	611.	366.	245.
United States ...	47.	460.	226.	87.	139.
Uruguay ...	.5	12.1	5.8	2.8	3.
Venezuela ...	1.8	8.	6.2	3.	3.2
Victoria ...	.8	17.	31.	16.	15.
Western Australia ...	.1	.2	.7	.3	.4
TOTAL ...	1,189.9	4,818.9	2,772.4	1,456.	1,316.4

CHAPTER XIV.

THE AMOUNT OF OUR FOREIGN TRADE HAS BEEN
DIMINISHING SINCE 1874.

THE subjoined table exhibits the fluctuations in our foreign trade (exports and imports combined) since 1867; in millions of £ sterling.

Total trade in					
1867 ...	£501.				
1868 ...	523.,	an increase of	4 per cent.	compared with	1867
1869 ...	532.,	" "	2 per cent.	" "	1868
1870 ...	547.,	" "	3 per cent.	" "	1869
1871 ...	615.,	" "	12½ per cent.	" "	1870
1872 ...	669.,	" "	9 per cent.	" "	1871
1873 ...	682.,	" "	2 per cent.	" "	1872
1874 ...	668.,	a decrease of	2 per cent.	" "	1873
1875 ...	656.,	" "	2 per cent.	" "	1874
1876 ...	632.,	" "	3½ per cent.	" "	1875
1877 ...	646.,	an increase of	2 per cent.	" "	1876
1878 ...	611.,	a decrease of	5½ per cent.	" "	1877

In the above trade returns, the influx and efflux of bullion are not included. But the balance between the export and import of the precious metals is, on an average of years, so insignificant and has so slight a connection with our trade in goods, that it is of very little account. Taking the three last years of the above series, viz., 1876, 1877, and 1878, the total amount of the gold and silver imported into, and exported from, the United Kingdom during that period was as follows :—

Importation during the three years, of gold	£59,000,000
Exportation " " "	51,500,000
Excess	<u>£7,500,000</u>

Importation during the three years, of silver	£46,800,000
Exportation " " "	44,100,000
Excess	<u>£2,700,000</u>

So that the operations of the country in bullion and specie during the last three years resulted in an excess of importation amounting to about £10,000,000, or a little more than £3,000,000 a year. It may, by-the-by, be as well to note that, during those same three years, the aggregate excess of our imports over our exports amounted to upwards of £200,000,000, and that, instead of our sending our bullion abroad to pay for this excess of imports, as the protectionists assume, we actually received £10,000,000 in bullion from other countries. But we shall refer to this more fully elsewhere.

It appears, then, that in the years 1871 and 1872 there occurred a large and sudden inflation in the amount of our foreign trade. Instead of the previous steady and normal advance of about 2 per cent. each year, it, at that period, increased by sudden jumps of $12\frac{1}{2}$ per cent. one year, and 9 per cent. the next. A brisk demand arose for all kinds of commodities, and the activity extended more or less to every branch of trade. In the year 1872 we sent abroad and received from abroad goods to the amount of £120,000,000 more than in 1870. Not that this enormous increase in the money value represented a proportionate increase in the quantities exported and imported. Mines, collieries, factories, &c., when in ordinary fair work, as they were when this exceptional activity sprung up, could not be made suddenly to increase their productiveness beyond a certain ratio. The enhanced amount of our trading operations was to no small extent due to the great and rapid

rise that took place in the prices of commodities. This rise (as will be shown further on by tables) was entirely confined to our own productions. While we charged much dearer for our exports, we paid no dearer for our imports, and the increased money amount of the latter was owing to their increased volume. But, as regards our exports, the increase in their amount was largely due to enhancement of prices, and only partially to increase of quantity. The demand from abroad for our staple productions was, during the height of the inflation, far in advance of the supply, and the advanced prices caused by the competition of buyers yielded magnificent profits to the manufacturers, abundant wages to the working men, and stimulated production to its utmost. Capital and credit came forward profusely, and almost pressing, to share in the general prosperity, and increased the activity of trade by the unusual facilities which they afforded.

That this feverish prosperity was short-lived, and that, as is usual, it was followed by a grievous reaction, we know but too well, for we are still under the chilling influence of that reaction. It is now well understood and admitted that the operation of that brief period of lurid prosperity was injurious to the permanent and legitimate progress of the country. We had to give way and yield back a large part of the ground which we had gained by an ill-advised rush, and this, like all retreats, was attended with losses and disaster. Habits of indulgence and even of extravagance had been fostered by the rich profits and high wages of those halcyon days. Increased expenditure prevailed among all classes of society, and everything was *couleur de rose*, even to the budgets of the Chancellor of the Exchequer. But the bubble burst. Prices declined, foreign trade diminished, and profits and wages have, since 1874, been continually falling. We are in the position of an individual who, having had his income unexpectedly doubled by some lucky accident, and having adapted his style of living to his improved circumstances, suddenly finds his income cut down again to its old limit, and has to go

through various unpleasant processes of retrenchment and self-denial.

If, instead of the "leaps and bounds" which our foreign trade made in 1871 and 1872 (as shown by the tables at p. 52), we had only progressed at the old steady rate of 2 per cent. per annum, a calculation will show that, starting from the amount of our foreign trade in 1870, viz., £547,000,000, it would by this time have arrived at a higher figure than it actually has attained, notwithstanding the jumps of $12\frac{1}{2}$ per cent. and 9 per cent. in 1871 and 1872. For instance, adding the supposed gradual increase of 2 per cent. per annum, our foreign trade would have reached

£558,000,000 in 1871, instead of the actual sum of £615,000,000			
569,000,000 in 1872	"	"	669,000,000
581,000,000 in 1873	"	"	682,000,000
593,000,000 in 1874	"	"	668,000,000
605,000,000 in 1875	"	"	656,000,000
617,000,000 in 1876	"	"	632,000,000
629,000,000 in 1877	"	"	646,000,000
641,000,000 in 1878	"	"	611,000,000

As, therefore, the causes that led to the inflation of our trade in 1871 and 1872 are, as it were, at the root of the commercial depression from which we are now suffering, it is of importance to trace and determine them, in order to arrive at a correct view of our present position.

Among those causes, the most direct and the most potent was the immense amount of money which England lent to foreign nations in the course of the years 1870, 1871, 1872, and 1873. During that period France, Russia, Turkey, Egypt, Peru, Brazil, India, American States and cities, together with a host of South American republics, and also the promoters of foreign undertakings of all sorts, such as railways, telegraphs, gas-works, water-works, &c., appeared as successful borrowers in the English money-market to an extent totally unprecedented till then, and quite unequalled since. No doubt a certain share of the amount was contributed by foreign investors, but it was British capital that provided a

very large proportion of the colossal sum that was raised. It is very difficult to ascertain with any degree of precision the total amount that England had to remit abroad in consequence of making these loans, for they were contracted for at various rates of deduction from the nominal capital—some were payable in instalments, and of others a portion was set aside for sinking funds, &c. But it may not perhaps be very wide of the mark to estimate the total amount that England had during the four years, 1870 to 1873, to transmit abroad in fulfilment of these engagements at £450,000,000; forming an average of £110,000,000 per annum.

How was the transfer of this enormous amount accomplished? Assuredly not by shipments hence of bullion and specie. We have already seen that no large movements of money from one country to another are ever effected by corresponding displacements of the precious metals. A comparative slight encroachment on the circulation requirements of the exporting country so violently disturbs the exchanges that the balance is speedily redressed. But setting aside all theoretical reasoning, it is a fact that English imports and exports of bullion and specie for the four years during which the transmission abroad of the vast sum in question took place, were as follows:—

GOLD AND SILVER.

YEAR,	IMPORTS,			EXPORTS,		
1870	...	...	£29,400,000	...	...	£18,900,000
1871	...	...	38,100,000	...	...	33,700,000
1872	...	...	29,600,000	...	...	30,300,000
1873	...	...	33,600,000	...	...	28,900,000
			<u>£130,700,000</u>			<u>£111,800,000</u>

We, therefore, during the four years in question, received from abroad gold and silver bullion and specie to the amount of £19,000,000 more than we sent away.

In proceeding to solve the question, it must be borne in mind, in the first place, that British investments abroad had for many years before 1870 been constantly on the increase, so that by that time the dividends which foreign debtors had to remit yearly to England formed a very considerable sum. Each year after 1870 those annual payments have become larger, and by this time they have expanded into a prodigious total. It has been shown (p. 49) that after deducting the dividends that should be, but are not, paid by the insolvent States, the yearly sum of £165,000,000 is still actually divided among the holders of national stock throughout the world. To these dividends on national loans must be added the dividends payable on a multiplicity of foreign, municipal, joint-stock, and other public investments which will swell the total sum distributed annually among private investors to upwards of £200,000,000. What proportion of this amount falls to the share of the British investors can only be a matter of conjecture. It must, however, be observed that, with the exception of France, the United States, Portugal, and, perhaps, one or two others, only a small proportion of the money borrowed by the fifty other States of the world has been lent to them by their own subjects respectively. Who, then, are the lenders? France, Germany, and Holland are wealthy nations, and are holders of a considerable amount of foreign stocks; as also are, of course, a certain number of opulent individuals in most civilised countries, but, undoubtedly, it is British capital that is the most profusely invested abroad, and that is the recipient of a proportionately large share of the total annual dividends.

Whatever that share may now be, there is reason to believe that in 1870 the annual amount accruing to England for interest and dividends on foreign investments was at least £30,000,000, and that by 1874 this amount was increased, by the large fresh advances made meanwhile, to £50,000,000, which gives an average of £40,000,000 for the intervening period. This sum would naturally form a part of the £110,000,000 remitted to the borrowers

abroad each year of the four in question, leaving £70,000,000 still to be accounted for. This enormous amount was supplied, either directly or indirectly, by an increase to the same annual amount in the exportation of British goods. That this was the case, we have both negative and positive proofs. Negative, because there is no other way of showing how the money was handed over to the borrowers. That they did receive it, nobody denies; that it was not sent to them in the shape of bullion or specie we have made abundantly clear; there is, therefore, no other possible way in which it could have reached them, except in goods, either directly or indirectly. And as regards proof positive, we have merely to refer to the unerring records of the Board of Trade. These show that the exports from the United Kingdom during the four years 1871-1874 averaged nearly £68,000,000 in excess of those of the preceding four years, 1867-70; which excess as nearly as possible accounts for the £70,000,000 which remained to be provided for out of the £110,000,000. The following are the exact figures:—

Total exports (in millions of £) from the United Kingdom for the years

1867	...	...	£226.	1871	...	...	£284.
1868	...	...	228.	1872	...	...	314.
1869	...	...	237.	1873	...	...	311.
1870	...	...	245.	1874	...	...	298.
£936.				£1,207.			
Annual average, £234.				Annual average, £302.			

exhibiting an excess of £68,000,000 per annum in the latter four years.

To show that the great increase in the exports of the years 1871-1874 was owing not to the natural growth of trade, but to the abnormal stimulus given to exportation by the vast sums which England had then contracted to lend to foreign nations, we append a statement of the

annual exports (in millions) of the four years which followed the cycle of 1871-1874, viz :—

1875	...	...	£281.
1876	...	...	257.
1877	...	...	252.
1878	...	...	245.
			£1,035.

Annual average, £259.

It is evident, therefore, that, as soon as the "abnormal stimulus to exportation" was withdrawn by the cessation of England's mania for making foreign loans, the amount of our exports rapidly diminished, and they have continued gradually receding until at the present time they have fallen to the exact point in 1870 (£245,000,000 per annum) from which they darted forward so briskly in 1871.

No small portion of the loans made to foreign countries had been handed over direct to them in the shape of commodities required for national purposes, such as iron rails, locomotives, iron steamers, machinery, fire-arms, steam-coal, and similar objects; and while exportation generally was stimulated to an unprecedented extent, the articles above referred to were, beyond all others, forced up to unnatural prices. Of course, these were the articles that most keenly felt the reaction. England, after 1874, not only lent money abroad much more sparingly, but had yearly to receive more from abroad for interest and dividends. Exportation, therefore, no longer artificially excited, gradually fell off, and now flows within its former natural channels, so that compared with its previous impetuosity, the current appears to have become languid and sluggish!

So much for the causes of the transient prosperity of the years 1871-1874, and for their bearings on the depression in trade that has since prevailed.

CHAPTER XV.

FALL IN PRICES SINCE 1874.

WE have already adverted to the fact that the great increase in the amount of our exports in 1872 and 1873 was more the result of advanced prices than of augmented production. Similarly the decrease in the amount of our exports since then has been far more the result of diminished prices than of diminished supply. We will endeavour to verify and as nearly as possible measure this decline in values.

We append a table of the comparative quantities and values of the leading articles of export for the years 1872 and 1878 respectively, these years being the highest and lowest points of our exportation since 1868. It will show, among other interesting inferences, that the amount exported in 1878 represents nearly as many tons, yards, &c., of goods, as the larger amount exported in 1872.

TABLE.—IN MILLIONS AND TENTHS OF MILLIONS; THAT IS, 00,000's OMITTED.

ARTICLES EXPORTED.	QUANTITIES IN 1872.	QUANTITIES IN 1878.	AMOUNTS IN 1872.	AMOUNTS IN 1878.
Alkali cwts.	4.5	5.6	£ 2.5	£ 2.
Bags and Sacks doz.	3.7	5.2	1.6	1.6
Coal, Coke, &c. tons	13.2	15.5	10.4	7.3
Cotton Yarn lbs.	212.3	250.5	16.7	13.
Cotton Goods.....yds.	3,538.	3,618.1	63.5	48.
Iron and Steel tons	3.4	2.3	36.	18.4
Linen Goods yds.	245.	161.	8.2	4.9
Linen Yarn lbs.	31.2	18.5	2.1	1.2
Woollen Yarn.....lbs.	39.7	31.2	6.1	3.9
Worsted Stuffs yds.	345.	192.6	20.9	7.4
	4,436.	4,300.5	168.	107.7

It appears from the above, supposing that the important articles named afford a fairly approximative index to the rest, that if the quantities exported in 1878 had been at the same prices as ruled in 1872, the amount thereof would have been

£162,900,000 instead of the actual amount, £107,700,000; consequently the general fall of prices must have been in that proportion, viz., 34 per cent.; of course, the decline was lighter in some articles, and heavier in others, but that must have been the average percentage.*

On the other hand, the prices we paid in 1878 for our imports was also much reduced, though not in the same proportion, because in them the previous rise had not been great. By a table, which will be found in next page, of the comparative quantities and values of the leading articles of import for the years 1872 and 1878 respectively, it will be seen that the average decline since the former year in the prices of those articles is about 22 per cent.

For, taking the leading articles selected as a criterion for the rest, if the quantities imported in 1878 had been worth the same prices as those which ruled in 1872, the amount thereof would have been £285,500,000, instead of the £222,200,000 that they actually did amount to. Consequently the general fall of prices must have been in that proportion, viz., 22 per cent.

That this fall in values is chiefly due to reaction from their sudden inflation in 1871-2-3 is beyond all question, but it must be observed that the fall has been hastened and probably intensified by another cause that is working slowly and silently, but efficiently and continuously. We allude to the diminished, and still diminishing, production of gold, in the face of the yearly extension of its use for currency purposes. Not only are the auriferous districts of California

* In these calculations we have taken for basis the total quantities and the total amounts. In working out each article separately, the result is somewhat different, because in some years the changes are greatest in those items which represent the greatest value, while, in others, the contrary occurs. But in the long run these variations correct each other, and for the comparison of large results, the total values of the total quantities constitute sufficient data to indicate the general tendency. The per-centages of fall on the various items by themselves are as follows:—Alkali, 35 per cent.; bags and sacks, 30 per cent.; coal and coke, 40 per cent.; cotton yarn, 34 per cent.; cotton goods, 26 per cent.; iron and steel, 25 per cent.; linen goods, 9 per cent.; linen yarn, no change; woollen yarn, 19 per cent.; and worsted stuffs, 37 per cent. The above remarks also apply to imports.

TABLE.—IN MILLIONS AND TENTHS OF MILLIONS; THAT IS, 00,000'S OMITTED.

ARTICLES IMPORTED.	QUANTITIES IN 1872.	QUANTITIES IN 1878.	AMOUNTS IN 1872.	AMOUNTS IN 1878.
Bacon cwts.	1.8	3.5	£ 3.8	£ 6.7
Butter "	1.1	1.8	6.	9.9
Cheese "	1.1	2.	3.	4.9
Coffee "	1.5	1.3	5.2	6.
Corn : Wheat	42.	49.8	26.	27.4
Flour	4.4	7.8	4.1	6.8
Maize, }				
Barley, &c. }	55.3	71.6	20.7	24.1
Cotton (Raw)	12.6	12.	53.6	33.5
Flax "	2.	1.6	5.	3.5
Hides "	1.4	1.2	4.9	3.5
Jute "	4.	4.2	4.	3.2
Linseed "	1.5	1.9	4.5	4.9
Rice "	6.9	6.1	3.5	3.2
Silk (Raw) lbs.	7.2	4.2	7.7	3.7
Sugar cwts.	15.5	18.2	21.1	20.8
Tea lbs.	186.	205.5	12.8	13.1
Tobacco "	46.5	91.4	2.6	3.7
Wine galls.	19.9	16.5	7.7	6.
Wood & Timber ... loads	4.9	5.3	12.7	13.1
Wool lbs.	302.9	395.5	18.1	22.8
Woollen Yarn "	11.7	11.3	1.4	1.4
	730.2	912.7	228.4	222.2

and Australia yielding smaller quantities than formerly, but, at the same time, gold has been rapidly replacing silver as the chief circulating medium of France, Germany, and Holland; and as the bi-metallic system loses ground, the currency of Europe will consist more and more of gold, and will absorb it in greater quantities. Tending in the same direction is the fact that the greater the production, the commerce, and the wealth of the world, the larger become its circulation requirements. As the objects constituting material wealth multiply, so either the number of golden counters by which they have to be represented must be multiplied in the same proportion, or else, each counter will

have to represent more of such objects than before, that is to say, prices will have to fall.

For a time, the increasing demand for gold was amply met by copious supplies from California and Australia. Indeed at one period it was thought that there would be a great excess of supply, and speculations were rife as to the extent to which prices might be expected to rise in consequence. But, for some years past, the yield of the gold-fields has fallen off, and has not kept pace with the increased demand for gold. If this disparity should continue, and *a fortiori*, if it should become greater, there must necessarily ensue a corresponding fall in the money-equivalent, or price, of all commodities. Were it not for two incidental circumstances, this general fall of prices would be of little importance, as commodities would still retain the same relative, or exchangeable value, and the wealth of the world would remain unaltered. But these two circumstances, which are as follows, introduce some rather complex elements into the subject.

1. The recipients of fixed incomes, such as interest on loan investments, &c., will have to receive the same nominal sum, whatever rise may take place in the value of money, and, in proportion to such rise, will they be receiving more than the real amount contemplated when those liabilities to them were originally contracted. Such variations are of small consequence as long as they keep within a limited range. There have constantly been some fluctuations in the value of money, but these have never gone beyond certain bounds, and the oscillations have sometimes moved in one direction, sometimes in the other. But should the supply of gold persistently continue inadequate to the demand (and it must be remembered that, besides what is used in the arts, the actual wear and tear, by abrasion, &c., and loss by shipwreck, hoarding, &c., amount to many millions per annum), the aggregate deficiency year after year must be productive of serious changes in the relations between the payers and the receivers of fixed annual sums; between the governments throughout the world and their creditors, the holders of stock. If the time should come

when gold shall have so increased in value as to acquire twice the purchasing power which it now possesses, England, for instance, will find herself in a very peculiar position. The yearly interest of her own debt, if then nominally the same, will in reality be twice as costly and onerous as it now is ; while, on the other hand, the £50,000,000, or thereabouts, which the British public now receive yearly from abroad for interest, &c., on foreign investments will, if then paid, be equivalent to £100,000,000 of money at its present value ; or, as the sum would be received in imports at half the present range of prices, foreign nations will have to send to England twice the quantity of commodities which they now send, in payment of the same nominal sum.

2. A tendency to lower prices is generally adverse to the revival of trade. Capital and credit, the two wheels on which commerce revolves, and without which it drags, keep aloof from falling markets, and distrust the security of property that is declining in money value. It is when prices are rising that capital and credit freely come forward and accelerate the rise. They like to connect themselves with prosperity, and it is their recklessness in assisting it that often pushes it beyond the mark ; just as, when the reaction comes, the wild rush of alarm with which they tear themselves away aggravates the panic from which they seek to fly. It is best for the interests of trade that prices should remain as steady as possible, or, at all events, should be free from other fluctuations than those to which it is inherently liable. But unless the increasing circulation requirements be met by an increasing supply of the medium of circulation, the divergence will materially affect the stability of prices, independently of all other causes.

The disturbing influence which a very deficient gold supply would exercise may, let us hope, be averted by increased production, and even if not, it is only by degrees, and in the course of years, that its effects would be felt to any severe extent. We thought it right, however, when treating of the fall of prices, to advert to a cause which although only a subordinate one for the present, is likely, as time advances, to become more and more powerful.

CHAPTER XVI.

COMPETITION IN NEUTRAL MARKETS.

IN 1872 our exports amounted to £314,000,000. In 1877 they had sunk to £252,000,000. To what extent was that decline in our exports due to the successful competition in neutral markets of our foreign rivals? An interesting and important question, which the detailed information afforded us by the Board of Trade returns will enable us to solve without difficulty. On examination, we find that the deficiency of £62,000,000 in the exports of 1877 as compared with those of 1872, is entirely made up of the decline of our exports to six only out of the 56 countries enumerated in table at p. 50, with which we trade. Here are the figures, the accuracy of which are beyond all dispute.

EXPORTS IN MILLIONS AND TENTHS OF MILLIONS
(00,000'S OMITTED):

	IN 1872.	IN 1877.	DEFICIENCY.
	£	£	£
To Russia	9.5	6.2	3.3
To Germany	43.1	28.9	14.2
To Holland	24.3	16.	8.3
To the United States	45.9	19.9	26.
To Egypt	7.3	2.3	5.
To South American Republics, viz., Columbia, Uruguay, Peru	8.4	3.4	5.
	138.5	76.7	61.8

Our total Exports in 1872 were	£314,000,000
„ 1877 „	252,000,000

Deficiency	£ 62,000,000
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which is (within a fraction) the deficiency on our exports to the six states named.

It is quite clear, therefore, that the large diminution referred to in the amount of our exports in 1877 arose entirely out of, and is fully accounted for by, our dealings with the six States indicated. To the rest of the world we have exported as much in amount in 1877 as in 1872, and, taking into consideration the fall in prices, at least 25 per cent. more in quantity. Taking the average of the other fifty markets which we supply with goods, they have last year taken from us 25 per cent. more in weight, measure, and bulk than they did in 1872, when, in consequence of high prices, the amount of our exports reached the highest point. To put it in another way, if we leave out the six countries we have referred to, to the rest, that is to the fifty neutral markets, our exports in 1872 at the high prices, amounted to £175,000,000, whereas in 1877, had the same prices existed, they would have amounted to £219,000,000. We have taken 1877 as the basis of calculation because the reports of that year were complete, but our remarks and inferences are quite as applicable to 1878, as the exports were then within two per cent. of the former year, and for that difference we have amply allowed by taking the fall of prices at 25 per cent., which is less than the reality.

In the face of these facts, there does not exist the slightest ground for supposing that we have been supplanted to any extent whatever in the neutral markets of the world. On the contrary, we have been sending to them and receiving from them more and more goods every year. A collateral proof of this fact will be found in the following statement of the tonnage of British and foreign vessels (sailing and steam), entered and cleared each year with cargoes at ports in the United Kingdom, from and to foreign countries and British possessions :—

1870	...	...	31,624,680	tons
1871	...	...	35,502,797	„
1872	...	...	37,154,292	„
1873	...	...	37,934,422	„
1874	...	...	38,834,893	„
1875	...	...	39,453,667	„
1876	...	...	42,537,484	„
1877	...	...	43,326,980	„

It is also deserving of notice that as we admit foreign manufactures free of duty we should, if we were undersold by them at all, be undersold in our own country nearly as effectually as in neutral markets ; yet what is the fact ? Of our total imports 91 per cent. consist of raw materials and articles of food, and barely 9 per cent. consist of manufactured articles ; while of this fraction, fully half consists of silks and woollen fabrics, which we have always been in the habit of importing. In contrast to this, 92 per cent. of our exports consist of manufactured goods, and only 8 per cent. of raw produce, of which latter two-thirds consist of coal, coke, and pig iron.

Let us now examine our position with regard to the six countries to which our exports in 1877 were £62,000,000 less than in 1872. Is this serious diminution the result of foreign competition, and have we been supplanted in those six countries by our rivals ? Not at all ! The real causes are obvious. In the case of the United States, it is increased import duties that have excluded our goods from their markets. It is protective tariffs that have curtailed both their and our foreign trade. If the Americans prefer a policy of commercial isolation, that is not our fault, and it proves anything but our inferiority in the art of cheap production. Our exports to Germany (direct and through Holland) received a sudden and enormous expansion in 1872 and 1873, chiefly owing, no doubt, to the expenditure of the French war indemnity, but the trade soon subsided to its previous level. In the case of Egypt and the three South American republics, they have bought less from us recently because we have lent them less. In 1872 we sold them large quantities because they paid us

with our own money. In 1877 we sold them much less because they then had to pay us with theirs. As to Russia, the deficiency is slight, and is accounted for by the state of her political relations with us.

It may perhaps be said that the two years that we have selected for comparison, viz., 1872 and 1877, might happen to furnish data exceptionally favourable to our views. We have therefore taken the average of the three years, 1871 to 1873, to compare with the average of three later years, 1875 to 1877, and we find that they yield the same result. Here are the figures :—

EXPORTS, IN MILLIONS AND TENTHS OF MILLIONS.

TOTAL EXPORTS TO	IN THREE YEARS, 1871—2—3.	IN THREE YEARS, 1875—6—7.	TOTAL DEFICIENCY.
Russia	£ 31.	£ 26.1	£ 4.9
Germany	118.3	92.7	25.6
Holland	71.	54.8	16.2
United States	121.3	65.2	56.1
Egypt	20.7	8.	12.7
Three South American Re- publics	22.3	9.9	12.4
	384.6	256.7	127.9

Our total exports during the three years 1871—2—3

were £910,000,000

Ditto ditto ditto 1875—6—7 791,000,000

Total deficiency £119,000,000

The decline in the exports to Holland arises chiefly from a diminution in the sendings to Germany in transit through Holland.

CHAPTER XVII.

FALL IN THE WAGES OF LABOUR.

JUST as commerce, after having been unduly stimulated in 1871, 1872, and 1873, has since been suffering from the consequent reaction, so wages, after rising enormously during the same period, were affected by the same reaction, and have been from that time gradually falling. The well-being of the wage-receivers, or working men, has fluctuated with that of the profit-receivers, or capitalists. In both instances the intoxication arising from sudden and inordinate prosperity led to improvidence and rashness. The employers were tempted into erecting too many new mills and factories, or into working poor mines that could only pay as long as prices continued exceptionally high. The operatives, in most of the flourishing industries, not content with an advance of from 30 to 120 per cent. on their former wages, insisted on working shorter hours, and on lessening the value of that work by unsteadiness and unpunctuality. In the coal districts they adopted the suicidal policy of limiting the output with the view of enhancing prices and keeping wages up; as if, the smaller the harvest the more food there would be for everybody. This policy was very much akin to that of the Dutch formerly, who are said to have burnt all the spices their tropical islands produced beyond a certain quantity, in order to enhance their value. When, after the unnatural inflation, demand subsided into its legitimate channels, wages gradually fell, and have continued to fall, in sympathy with, but hardly in the same proportion as, the profits of capital and the prices of commodities.

Against this decline the wage-receivers have (as is natural and excusable) fought inch by inch. By concerted action, by strikes, by the partial adoption of co-operation, and by every weapon which trade-unionism put in their hands, they opposed all the resistance in their power to the reduction of their wage. But the irresistible course of events proved too strong for them, and they had to yield.

In former times the effects of such severe and protracted commercial depression as that which we have gone through would have been visible in the general destitution of the people, in mass-meetings of hundreds of thousands of unemployed workmen, in an immense increase of pauperism, and in lawless and destructive riots, such as were of periodical recurrence a generation or two ago, when we were a highly "protected" people. That nothing of the kind should have occurred in the present day, is no doubt partly due to the better education and softer manners that now prevail among the working men, but it must be observed that the fall in prices has pressed far more heavily on the mercantile than on the operative classes. If the latter received less pay than before, on the other hand, their outgoings were less, and there was more than a proportionate reduction in the cost of living. Moreover, in consequence of the fact, to which we have adverted, of the volume of our productions not having diminished since the culminating period of excitement, 1872, there was plenty of work to be done, although it might be paid for at a lower rate. If there was less employment for labour in some branches of our industries, there was more of it in others, and the surplus in the former quickly became absorbed in the latter. That the transition from high to moderate wages has not inflicted severe distress on the wage-receivers, and that the condition of the bulk of the people has been continuously improving, is made evident by the following facts:—

1. Pauperism has decreased. Here are the numbers of the paupers relieved yearly in England and Wales since 1871:—

1871	...	...	1,081,926
1872	...	...	977,664
1873	...	...	890,372
1874	...	...	829,281
1875	...	...	815,587
1876	...	...	749,593
1877	...	...	728,350
1878	...	...	742,703

2. Emigration has decreased. The yearly number since 1871 of emigrants from the United Kingdom to America, Australia, and other places, is given below :—

1871	...	...	252,432
1872	...	...	295,213
1873	...	...	310,614
1874	...	...	241,015
1875	...	...	140,675
1876	...	...	109,460
1877	...	...	95,105

Against the 95,105 emigrants in 1877, there were no less than 81,848 immigrants.

3. Convictions for criminal offences are fewer relatively to the population. Here are the numbers of the convictions for the United Kingdom and of the population since 1871 :—

	CONVICTIONS.		POPULATION.	
1871	...	16,387	...	31,513,000
1872	...	15,686	...	31,836,000
1873	...	15,741	...	32,125,000
1874	...	16,107	...	32,426,000
1875	...	15,643	...	32,749,000
1876	...	16,590	...	33,093,000
1877	...	16,255	...	33,447,000

4. The Excise has yielded a larger revenue. Here are the yearly amounts since 1871 :—

1871	...	...	£23,339,000
1872	...	...	23,386,000
1873	...	...	25,904,000
1874	...	...	27,116,000
1875	...	...	27,254,000
1876	...	...	28,300,000
1877	...	...	28,408,000
1878	...	...	28,381,000

5. The people consume more per head of sugar, tea, tobacco, and imported food than ever. We give the average annual consumption of the following articles per head of the total population of the United Kingdom in lbs. and 100ths of lbs. :—

IN LBS. AND 100THS OF LBS.	1871.	1872.	1873.	1874.	1875.	1876.	1877.
Bacon ...lbs.	1.38	5.44	9.07	7.84	8.26	9.49	8.04
Wheat & Flour } „	150.63	162.86	170.79	162.11	197.08	167.80	203.26
Sugar (Raw) } „	41.40	41.18	43.96	47.48	53.97	50.16	54.06
Tea „	3.92	4.01	4.11	4.23	4.44	4.60	4.52
Tobacco „	1.36	1.37	1.41	1.44	1.46	1.47	1.49

6. The deposits in the Savings Banks have increased. Below is a statement showing the amount invested in both the Trustee's Savings Banks and the Post Office Savings Banks, year by year, from 1871 to 1877 :—

1871	...	...	£55,844,667
1872	...	...	59,406,687
1873	...	...	61,667,884
1874	...	...	64,663,418
1875	...	...	67,595,114
1876	...	...	70,280,120
1877	...	...	72,979,443

We come therefore to the conclusion that while the wages of labour have undergone a considerable decline since the extravagant rise of 1871—1873, it is no less certain that it has by no means seriously deteriorated the condition of either the wage-receiver or of the bulk of the community ; and that it is the manufacturing and trading classes that have most suffered from the commercial depression that has prevailed for the last few years.

CHAPTER XVIII.

COMMERCIAL AND BANKING FAILURES SINCE 1874, AND
RATIO OF FALL IN PRICES.

It is in the nature of things that, during the period that, from whatever cause, prices are falling, commercial operations should, as a general rule, result in losses. During the transition from high to low values, a purchase made one week is dear the next. At whatever price a merchant may buy an article, he will be undersold in a few days, or at all events before he can get quit of his merchandise. Under these circumstances, he naturally curtails his operations and buys less from the manufacturer. The latter finds, therefore, that, in spite of his having submitted to gradual reductions in price, his stocks are accumulating ; and as he cannot pay wages and meet engagements, without making sales, he is compelled, whatever his loss, to tempt purchasers by still lower and lower prices. To meet this reduction in the value of his fabric, he has to lower the rate of wages. After a struggle the wage-receiver submits, but as he has less money to spend among the tradespeople, they, in their turn, come in for their share of the bad times. As the process continues each step downward makes matters worse. The depreciation of value extends to all sorts of property. Not only do commodities become cheaper, but factories, mills, mines, machinery, stock, shares in industrial enterprises, houses and even land, all participate in the depreciation. Banking capital that has all along been freely making advances on commercial securities, now takes fright, and seeks to disengage itself from those investments by

calling in its advances or contracting their amount. This demand falls heavily on the trader at this moment, for, in declining markets, everything he touches loses money, what stocks he holds have sunk in value, those who owe to him—themselves under pressure from the same cause—defer their payments, the credit by which he was before assisted is now sparingly given or withheld, and he finds difficulty even in discounting his bills. In spite of all this, he must go on, or his business and position will be compromised. Those who have sufficient strength and capital, withstand the pressure and can afford to wait to recoup themselves when good times return; but some have to give way, and one failure leads to another.

Some banks, when deeply involved with one or more large and over-weighted mercantile firms, have tried to prop them up and carry them through the transition period, hoping thus to retrieve the fortunes of both; but in most cases they have themselves sunk under the burden, and the efforts made to avert the catastrophe have only tended to render it doubly disastrous. Thus enormous and unexpected bank failures have contributed their sinister effects to the general loss and depression.

These are the features by which the commercial history of the last few years have been marked, and such features have always more or less accompanied a continuous fall in prices. The brunt of the evil has been borne by the trading and professional (that is the middle) classes; for, as to the wage-receivers we have before explained that the reduction in the cost of living has nearly coincided with the reduction in wages; and as to the receivers of fixed incomes, they have been, not injured, but positively benefited by the fall in the value of commodities.

We may conclude that while the commercial and banking failures that have occurred of late years are the outcome, and not the cause, of the fall in prices that set in in 1874 and 1875; on the other hand, they undoubtedly contributed to increase the gloom and ruin out of which they sprung.

Since the upward or downward tendency of prices pro-

duces so powerful an effect on commercial prosperity, it becomes of the utmost importance to ascertain: (1) at what point of the fall we have now arrived; (2) how far prices have sunk below the level from which they started upwards in 1871; and (3) at what stage we may fairly hope to have reached the turning-point. The first two inquiries we may solve without much difficulty.

By means of tables constructed on the plan of those given at page 60 (the details of which, however, would occupy too much space here) we have arrived at the conclusion that the following are the exponent numbers that represent the comparative average prices of the chief articles of our export trade for the undermentioned eight years, taking 1861 as the standard, and assuming that the average price of our export commodities for that year were represented by the figure 1,000:—

Average prices of exports for 1857 represented by 1,087.				
"	"	1861	"	1,000.
"	"	1865	"	1,593.
"	"	1867	"	1,305.
"	"	1870	"	1,283.
"	"	1872	"	1,396.
"	"	1876	"	1,023.
"	"	1878	"	923.*

From the above it will be seen:—

1. That average prices rose to a higher point in 1865 than in 1872. This was chiefly owing to the enhanced value of cotton goods in 1865, arising from the scarcity and dearness of the raw material in America.

2. That prices in 1878 sank to a lower point than in any other of the years given, and are 8 per cent. below the average of those of 1861, which was a year of great commercial embarrassment and stagnation.

* Thus, supposing the average prices of 1861 to be represented by the figure 1,000, the higher or lower figures appended to the other years indicate the relative rise or fall in the average prices of those years as compared with 1861. Hence 1865 shows the highest and 1878 the lowest prices of the series.

The latter is a fact of peculiar significance, and we shall shortly advert to it more fully. But it is necessary, in order to take an accurate survey of the course which the average prices of all commodities have taken for some years past, to turn to our imports, and examine into the fluctuations of price that have taken place in that branch of our trade.

On the plan of the table given at page 62 of the comparative quantities and values of certain articles of import, I have constructed a series of others by which I have arrived at a number which represents the comparative average price of all the articles of import comprised in that table for each year. The articles which I have selected as bases of calculation are 21 in number, out of about 100 which appear in the Board of Trade list, but they are by far the largest and most important, for they constitute nearly two-thirds of the entire amount of the imports, leaving only one-third to be represented by the remaining 79 articles. These, it may be assumed, fluctuate in nearly the same lines as the larger items, and if there are any small deviations in one direction or the other, they are pretty sure, in obedience to the law of averages, to neutralise each other.

The following are the results which these investigations have yielded. Given that the average prices of our imports for the year 1861 shall be represented by the figure 1,000, then

The average price of imports for 1861 is indicated by 1,000.

"	"	"	1867	"	935.
"	"	"	1870	"	887.
"	"	"	1872	"	871.
"	"	"	1876	"	745.
"	"	"	1878	"	678.

From these remarkable deductions let us draw a few inferences :—

1. While our exports have generally ruled at higher (sometimes much higher) prices than those of the year 1861, the prices of our imports have since that year been continuously declining.

2. While the articles we sell now (end of 1878) command within 8 per cent. of the prices of 1861, the articles we buy are 32 per cent. cheaper than they were at that period.

3. The articles of which the prices remain nearly the same as in 1861 (those we export) consist in great measure of manufactures. The articles of which the prices have fallen largely since 1861 (those we import) consist almost exclusively of raw materials and agricultural produce.

4. For the same quantity of our exported goods for which we got £1,000 in 1861, we got £1,396 in 1872. For the same quantity of imported goods for which we paid £1,000 in 1861, we only paid £871 in 1872. Thus the brisk trade of the latter year did not raise the prices of foreign commodities, but only, for a time, checked the rapidity of their fall.

5. The prices of our export goods which had in 1872 advanced $39\frac{3}{4}$ per cent. from those of 1861, fell in 1878 to $7\frac{3}{4}$ per cent. below those of 1861. This is a fall of $47\frac{3}{4}$ per cent., taking 1861 as the standard, and is equivalent to a fall of 34 per cent. on the increased prices of 1872. On the other hand, the prices of our foreign importations, which in 1872 had fallen 13 per cent. below those of 1861, fell in 1878 to 32 per cent. below them, which is equivalent to a fall of 22 per cent. on the diminished prices of 1872. In other words, the fall on our goods of 34 per cent. between 1872 and 1878 was upon a great rise; that on foreign goods of 22 per cent. during the same period was upon prices already reduced.

6. The alteration that has steadily been going on in the relative, or exchangeable, values of the two great classes of commodities, viz., the agricultural and the manufactured, is very suggestive, and leads to some interesting considerations, for which, however, we cannot find place here.

It is easy enough to trace the course which the price of each separate article takes from year to year because you have to deal with single factors; but the result is of no use in an inquiry as to the march of prices

generally. The difficulty is to trace the course from year to year of the total average price of all commodities. Not only is their variety immense, but their relative quantities must also enter into the calculation. In the table which follows we have averaged the price-exponents of our exports and of our imports, making due allowance for the relative quantities of each. It will therefore show the relative average prices of one year to another of the entire volume of commodities that constitute the import and export trade of the United Kingdom, assuming that the leading articles (in value and bulk) fairly represent the rest. Indeed, as our trade embraces nearly every article of any importance which the world produces, and as the variations in price that occur in our markets are rapidly responded to in every part of the globe, our table may be said, in a rough way, to represent the relative average prices of all the world's commodities. Given that the average prices of all the articles both of export and import for the year 1861 shall be represented by the figure 1,000, then

The average price of all articles for 1861 is indicated by 1,000.

"	"	"	1867	"	1,102.
"	"	"	1870	"	1,064.
"	"	"	1872	"	1,118.
"	"	"	1876	"	858.
"	"	"	1878	"	776.

We arrive, then, at the conclusion that since 1861 the average price of commodities, after rising for some years, has again fallen, and is now $22\frac{1}{2}$ per cent. below the average of that year, and $30\frac{1}{2}$ per cent. below the high figure which it had reached in 1872.

If a reaction from the high prices of 1872-1873 had been the sole origin of the existing depression of trade, we must by this time have more than reached the turning-point, for prices have receded much beyond the level from which they started. But another cause is at work. We have already adverted to the influence exercised over prices by the decreased production of gold, and the increased volume of

commodities which gold has to represent. The combined operation of these two agencies, while it has no effect on exchangeable value, has produced, is producing, and will continue to produce, a reduction more or less rapid in the money value of commodities. The strain on gold is the heavier on account of the demonetisation of silver in some countries, so that gold has to do additional work. But this is far too large a subject to be treated in a cursory manner, and is fully entitled to a separate and careful inquiry.

At all events, we have seen that, from whatever combination of causes, prices have descended to a lower level than mere reaction warranted, and that the fall since 1861 has been considerably greater on foreign goods than on those of our own production.

CHAPTER XIX.

THE INCREASED EXCESS IN THE AMOUNT OF OUR IMPORTS
OVER THAT OF OUR EXPORTS.

THAT we import foreign goods to an amount largely in excess of that of our exports, and that this excess has, of late years, been far greater than it ever was before, are notorious facts which have attracted general attention. The prevailing notion among a large portion of the community is, that this state of things is an evil, and many persons consider that it betokens the decline of our trade and the diminution of our wealth. "Foreign countries," say they, "resort to every device to curtail and pare down their purchases from us, while we go on purchasing enormously and increasingly from them. It is not our goods but our money that the foreigner wants in exchange for his goods; and the increasing excess of our purchases over our sales is the measure of our decadence." That this view of the matter is utterly erroneous, and that it is only a reproduction of the old exploded fallacies about the "balance of trade," is susceptible of easy proof. As the shortest way, we propose to establish the following propositions, which lead to precisely opposite conclusions:—

1. This excess of imports does not cause our money to flow out of the country.
2. It is the sign, not of our decay, but of our wealth.
3. All prosperous nations import more than they export, and *vice versa*, an excess of exports nearly always indicates an indebted or a declining country.

Before going further into the matter, let us see what have been the actual relative values of our exports and imports for a series of years past. It will be found that they are considerably less divergent from each other than would

appear from a *prima facie* view of the annual returns of the Board of Trade. As for the imports, we must, for the reasons given at page 49, deduct 11 per cent. from the official returns, in order to arrive at the actual amount which the foreign seller has to receive from us in payment of his goods.* As for the exports, the official returns do not, as they do in the case of the imports, include the freight, insurance, &c. But two-thirds of the goods we export are, and have been for many years, conveyed to their destination in British ships. The total tonnage that in 1878 cleared with cargoes from British ports to foreign countries was 17,544,000 tons. Of this tonnage the proportion of British was 12,050,000 tons, of foreign of all nations 5,494,000. In at least the same proportion, the insurance on the cargoes was effected in London. Two-thirds, therefore, of the 11 per cent. freight and charges which the foreign consignees of our exports have to pay, are paid to British shipowners and underwriters, and must be added to the official returns of exports in order to arrive at the real amount, which the foreign buyer has to remit to us in payment of our goods.

Accordingly in the table, which we append, of our imports and exports for each year since 1861, we have made the deductions and additions called for by the above considerations, and have thus elicited the real differences that have occurred between what we have had to pay for our imports, and what we have had to receive for our exports for the last eighteen years.

From this table we collect that, with the exception of 1871, 1872, and 1873, we have regularly for many years imported more than we exported, and that the excess of imports during the entire series of eighteen years has, on balance, been

* It is true that only two-thirds of our imports are brought in British bottoms, and that one-third of the 11 per cent. in question is paid to foreign shipowners, but we have left this as a set off against the amount of freight which our immense mercantile navy earns from the foreigners (and remits to England) on intermediate voyages between one foreign port and another. This amount is greater than that which we leave to stand against it.

£322,000,000, of which £231,000,000 represents the excess on the last four years alone, viz., 1875, 1876, 1877, and 1878.

Now the question is, did we, or did we not, pay for this £322,000,000 excess of importations in specie? Or for what part of it did we pay in specie? Or, finally, did we pay in specie for any part of it whatever? There is no difficulty at all in solving this question, for we have an exact record of all the specie and bullion we received from, and sent to, foreign countries during the period referred to. We open those valuable returns of the Board of Trade, which substitute for idle rhetoric the arbitrament of cold, stern, immutable figures, and we find as follows:—

TABLE OF EXPORTS AND IMPORTS OF GOLD AND SILVER BULLION AND SPECIE FROM AND INTO THE UNITED KINGDOM FOR THE FOLLOWING YEARS (IN THOUSANDS OF POUNDS).

YEAR.	EXPORTS.	IMPORTS.
	£	£
1861	20,811	18,747
1862	29,326	31,656
1863	26,544	30,031
1864	23,132	27,728
1865	15,092	21,462
1866	22,639	34,287
1867	14,324	28,821
1868	20,220	24,853
1869	16,377	20,501
1870	18,920	29,456
1871	33,760	38,140
1872	30,336	29,608
1873	28,899	33,599
1874	22,584	30,379
1875	27,628	33,265
1876	29,464	37,054
1877	39,798	37,163
1878	26,687	32,421
	446,541	539,171

Showing an excess of imports of £92,630,000.

These figures are decisive. Far from our having sent out any specie whatever in payment for the £322,000,000 excess of imports during the eighteen years referred to, we actually received from abroad during that period an excess of specie amounting to £92,630,000! This sum gives an average of £5,000,000 per annum, which is about what it is calculated that we require annually to supply the demand for art purposes, to replace wear and tear, and to meet the increase in circulation.

Let us look at it in another way. During the four years 1871, 1872, 1873, and 1874, we exported more than we imported by £28,000,000; during the four years 1875, 1876, 1877, and 1878, we imported more than we exported by £231,000,000. Now if international balances were paid in specie, it would follow that we must have received from abroad gold in far larger quantities than usual during the first of those two periods; and sent away large quantities of gold during the second. But what do we find to be the fact? If any one will make the calculation from the figures in the table just given, he will see that during the first period, the balance of specie received over the specie sent was £16,147,000, while during the second it was £16,326,000. That is to say, during the four years that we exported largely, we received £180,000 less specie from abroad than we did during the four years that we imported £231,000,000 in excess of our exports. Is it possible to show more clearly and conclusively that we do not pay in specie for the excess of our imports over our exports?

In fact, as we have shown before, no large international payments are ever made in specie. The stock of it in each country (except at places of production) is totally inadequate to such a purpose. When in 1871 to 1873 we undertook to send large sums abroad as loans to foreign countries, they went not in specie, but in the shape of increased exports. France, after 1871, had an enormous indemnity to pay to Germany. What part of it was paid in specie? The merest fraction. In the *Economist* of March 15th, 1873, there appeared a statement to the following effect:—that

the French Government had just completed a payment to Germany of £94,600,000, and that the various items of which the payment consisted were as follows :—

French gold and silver	...	...	£6,400,000
Bank-notes, French and German	...	...	8,200,000
Bills of Exchange on Belgium and Holland...			16,000,000
" " Germany	...	...	40,000,000
" " England	...	...	24,000,000
			<u>£94,600,000</u>

The *Economist* adds that the £80,000,000 on Holland, Germany, and England represent the excess of commodities which France has furnished in order to meet the ransom ; and that, meanwhile, the bullion in the Bank of France has been maintained at £30,000,000. Thus the circulation requirements of France were not interfered with by this enormous payment, and even the £6,000,000 of gold and silver paid were probably the produce of the hoards that had been accumulating in the old stockings and under the hearthstones of the frugal and industrious French peasantry, and that had not before been in circulation.

We dwell the more on this topic because it is a very common notion that the balances due from nation to nation are paid in specie, and it is this radical error chiefly that leads protectionists to aim at selling as largely as possible and buying as sparingly as possible, in the delusive hope of getting the difference in specie. The futility of such an aim is at once apparent, when it is clearly seen that specie is not the medium through which the balance is maintained between exports and imports, or through which heavy payments, from whatever cause, are made by one country to another.

We undertook next to show that our large excess of imports over exports is "the sign, not of our decay, but of our wealth."

That England, or rather that individual Englishmen (using that term generically for the inhabitants of the United Kingdom) have yearly to receive from almost every foreign country large sums of money for interest, dividends, &c., on loans, shares, and other investments, everybody is aware, but what the aggregate amount is that has thus to be annually transmitted to this country, is a mere matter of conjecture, and has been variously estimated at any sum between £30,000,000 and £70,000,000 sterling. Mr. E. Seyd in 1876 estimated the indebtedness of other countries to this at £1,100,000,000 with an annual interest of £40,000,000 to £50,000,000. Professor Fawcett, in his recent work on "Free Trade and Protection," says that "it has been calculated by competent authorities that the balance annually due to England as interest on capital invested in India and America alone is about £30,000,000," which seems high, considering that it refers to only two countries. We have taken considerable pains to collect all available data on which to found a conclusion, but even these still leave a considerable margin for mere conjecture. If any one will consult Wetenhall's official "London Daily Stock and Share List," he will see a classified enumeration of the various foreign securities in sterling money for which London is the central, and, in some cases, the only market. Besides these, there are a vast number of others which are in foreign currency, and of which the chief markets are abroad. After analysing these, calculating the yearly return yielded by each, and estimating as closely as possible the portion thereof which has annually to be remitted to England, including the amount which India has to send each year in payment of that portion of her government expenditure that is defrayed here, we find the total to reach the sum of £55,700,000. On the next page is a detailed statement of the various classes of securities of which the total is made up.

It therefore appears that we are the recipients of an income from abroad of about £56,000,000 per annum, in addition to which, if we take into account the repayment of some small part of some few loans which takes place every

ANNUAL INTEREST AND DIVIDENDS ON FOREIGN INVESTMENTS, &c.,
IN THOUSANDS OF POUNDS.

	TOTAL.	TO BE ANNUALLY RE- MITTED TO LONDON.
Colonial Government Securities	£4,628	90 % £4,165
Foreign Stocks, Bonds, &c., of which the dividends have all to be remitted to London (not including the bad debts, such as Spanish, South American, Turkish, &c.)*	...	... 10,680
Foreign Stocks, Bonds, &c., dividends payable abroad	117,000	15 % 17,550
Indian Railway Debentures, Bonds and Stocks, all	...	... 506
Railways in British Possessions, chiefly India	4,874	90 % 4,387
Foreign Railways, financed and dividends paid in London	1,149	86 % 919
" Railway Obligations, Mortgages, &c.	1,542	85 % 1,311
American Bonds and Shares—sterling—payable in £ sterling	3,473	85 % 2,952
" " payable in American currency	6,700	20 % 1,340
Colonial and Foreign Mines	298	70 % 208
Gas, Water, and Miscellaneous	1,991	85 % 1,692
Sum that has annually to be remitted by India for a portion of her Government Ex- penditure defrayed here—average		£45,710
		10,000
		£55,710

In addition to the above, there are a number of private industrial and other enterprises abroad, in which British capital is engaged, and from which it derives a revenue, which are not represented or dealt in on the London Stock Exchange.

* We insert the whole of this amount because, although the Stocks are not all held by Englishmen, it has all to be remitted to London, where it is distributed to the investors, whether British or foreign.

year, the profits remitted here on British capital invested in private undertakings never heard of on the Stock Exchange, and those sent from numerous branch houses abroad to the parent firms here, we shall probably find that the amount which has to be remitted each year to England from abroad does not fall far short of £60,000,000.

It is that large amount which, being transmitted to us in the shape of goods, constitutes the excess of our imports over our exports, and as long as our debtors continue to fulfil their engagements, so long (and long may it be!) shall we continue to witness the same excess of imports. Indeed, it would have been considerably larger but for the cessation of dividend payments by defaulting states. We have for half a century past been a lending nation, and therefore have always been receiving an income from abroad in return for British investments (though by no means to the same extent as now), but a reference to the table at page 82 will show that since 1863 and up to 1874 the excess of imports, in spite of the income in question, was but small; and indeed, in the years 1871, 1872, and 1873, it was the exports that were in excess of the imports. Of these fluctuations the reason is obvious. From 1863 to 1870, we were steadily investing money in foreign loans, &c., and thus absorbing in fresh investments part of the sums that we were receiving for interest, &c., on our previous ones, and accordingly during those years there was but a small excess of imports. But during the years 1871, 1872, and 1873, we suddenly and largely increased our foreign investments; we contracted foreign loans with indiscriminate eagerness, and lavished our money abroad with almost blind profusion. Hence exports received an extraordinary stimulus and an unprecedented development. The money which the British capitalist lent was largely laid out with the British manufacturer, mine-owner, shipbuilder, &c. Wages rose, traders made more and spent more, and the pulse beat quicker throughout the whole commercial body. Thus not only were the sums absorbed that we were receiving as returns for our previous investments, but more was required, to provide for which we had to export in

excess of our imports, as pointed out at p. 58. However, this mania for lending money to foreign countries rather suddenly came to a stop in 1875, partly because our surplus capital had been pretty well exhausted for a time, but chiefly because several of the countries to which we had lent money declared their inability to pay their dividends, and a well-founded apprehension arose that the example would be followed by others. These defaults caused heavy losses to British investors, and made them so cautious, that from that time up to this, very little money has been lent to foreign countries. The consequences of this change were immediately visible. Our income from foreign investments, which we have shown to be nearly £60,000,000, not being neutralised by any outflow for loans as it was during the preceding years, and being of course sent to us in goods, there was a proportionate increase in the excess of our imports. According to the preceding calculations, that excess ought to be equal to the amount of our investment income, viz., £60,000,000 per annum. On reference to the table at p. 82, it will be seen that the excess of imports for the four years 1875, 1876, 1877, and 1878, amounted to £231,000,000, which gives an average of £58,000,000 per annum.

The effect of this abstention during the last four years from foreign investments has manifested itself in two directions: 1. A great collapse in the export trade which the loan system had stimulated to an abnormal extent. The British capitalist no longer lends money to be laid out with the British manufacturer, mine-owner, &c. Wages have fallen, traders have made less and spent less, and the pulse beats more feebly throughout the whole commercial body. 2. A large accumulation in England of capital that seeks, but cannot yet find, profitable and safe employment. Our large income from abroad, instead of being squandered in loans to foreign nations, is retained in the country, and is daily adding to the mass of money that is lying unused. The rate of interest has sunk as low as it has ever been known, consols are rising, and seem likely to reach par, and

it is estimated that the amount now lodged on deposit at the various banks throughout the United Kingdom is upwards of £600,000,000—an amount far exceeding all precedent.

That excess of imports proves the wealth of a country and excess of exports its indebtedness, is a fact that necessarily results from the foregoing considerations, and has been the subject of some remarks at p. 12. But we shall give here a few illustrations of its truth. On a reference to the table at p. 50, it will be seen that, besides England, imports are in excess of exports in Germany, Belgium, the Netherlands, Denmark, Sweden, and Norway, all wealthy or improving countries with debts that are moderate compared with their foreign trade. The case of Norway is a peculiar one. It is the large mercantile navy of that little state that brings them in so rich a tribute from the foreigner every year. In 1878, there entered with cargoes at British ports, 1,734,000 tons of Norwegian shipping, by far the largest of any foreign country; Germany coming next with 1,048,000, and the United States lagging a long way behind with 542,000. On the other hand, we find that the countries in which the exports exceed the imports are the United States, Spain, Turkey, Austria, Brazil, India, and Peru, all of them indebted states with large debts as compared with their foreign trade. As to France, she has not yet wholly recovered from the financial and commercial disturbance occasioned by the German indemnity, but she is rapidly assuming her place among the over-importing countries, as all wealthy and progressive nations must do.

CHAPTER XX.

THE DEPRESSION IN TRADE NOT CONFINED TO ENGLAND,
BUT PREVALENT EVERYWHERE.

IF, as some assert, free trade be the main cause of the depression in trade that has prevailed in England for the last three or four years, it would follow that those countries that lived under the protective system should, by way of contrast, exhibit great commercial activity, and be revelling in prosperity. If it be from the unwholesome influence of free trade that our commerce is suffering, the commerce of those countries that are free from that influence ought to be healthy and vigorous. But this is far from being the case. The trade of the rest of the world is mostly in a more depressed state than it is here. From every country on the continent of Europe there arise loud cries of distress both from the employers and the sellers of labour; and the shield of protection hangs so uneasily on them that they are asking for it to be shifted, either higher or lower, they hardly know which. As to the United States of America, the most highly protected country in the world, the condition of the trading and industrial classes is, in spite of their access to abundant, fertile, and cheap land, worse than it is in Europe. Of this conclusive proofs are at hand. In the two years 1872 and 1873, at the highest point of our commercial inflation, when labour was both scarce and dear, 466,000 persons emigrated from the United Kingdom to the United States of America. In 1876 and 1877, when trade

here was greatly depressed, the number of emigrants had dwindled down to 54,000 and 45,000 respectively. Indeed, during the latter years, nearly as many returned to England from the United States as went there. Surely the great fall in wages here in 1876 and 1877 ought to have stimulated our working men to leave us for America in very much larger numbers than in 1872 and 1873 when they were getting ample wages, and labour was in great demand. Instead of which, quite the contrary has happened, and emigration has almost come to a stop. How was it possible for this to occur if the protective system was working beneficially for the United States, while free trade was working detrimentally for England? If this should meet the eye of some working man yearning after protection, we beg that he will ponder over that question. The fact is that while industrial prosperity had declined in England, it had, in spite of all the protection lavished upon it, declined in a far greater degree in the United States. Of this, the working classes here, deeply interested in ascertaining the value of labour in different labour-markets, became so well aware, that they preferred moderately low wages here to idleness or starvation-wages in the United States. It is clear, therefore, that free trade cannot be accused of causing a state of things which exists in an aggravated form in countries where the contrary system prevails.

As an instance (and it is an important one) of the comparative results of free trade in England and of protection in the United States, let us look at the relative success of each in securing a share in the carrying trade of the world—a prize worth contending for. Up to 1849, Great Britain “protected” her mercantile navy by the celebrated Navigation Laws, which created almost a monopoly of our trade for our own merchantmen. In that year, we repealed those laws, and boldly threw our trade open to universal competition. Of course, the total downfall of our mercantile navy was confidently predicted by the protectionist party, but their fears were not realised. Instead of decadence came development; our mercantile marine became more

pre-eminent than ever ; we have become the carriers for the world, and our flag waves in every port where any trade exists at all. This was the effect of discarding protection.

Now let us look at the working of the opposite system (protection) on the carrying trade of the United States. Previously to 1860 the American mercantile marine competed stoutly with our own as carriers of merchandise from one part of the world to another, and they obtained a considerable share of that lucrative employment for capital and labour. Nearly three-fourths of the goods that were sent from, or brought to, their own shores were conveyed in United States vessels, and the Stars and Stripes were constantly found alongside the Union Jack in the principal trading ports of the world. The unfortunate Civil War between North and South put a temporary stop to this competition, for with the characteristic spirit of the Anglo-Saxon race, all the energies of the American people were concentrated on that fierce struggle. But after the close of the war there was apparently nothing to prevent the American ship-owners from resuming their rank among the mercantile navies of the world. One thing, however, had occurred meanwhile which destroyed all their chances of success. The protective system had assumed formidable dimensions. The ruling party carried it out to an unprecedented extent, and by the imposition of excessive import duties shut out cheap foreign goods, to be replaced by dear native ones. Prices were raised thereby to such a point that it became no longer possible for America to construct and equip merchant ships (whether sailers or steamers) on terms that would allow the owners to compete with British merchantmen, and the latter have accordingly had the carrying trade almost to themselves ever since. The United States, nevertheless, possess a large and very fine mercantile navy, but its operations are in great measure restricted to their extensive coasting and internal trade. Owing to her immense sea-board bathed by two vast oceans, the Atlantic and the Pacific—to the noble rivers that afford navigable access to the very heart of the country—to the

great expanse of her lakes, or rather inland seas—owing, above all, to the free trade system that prevails between state and state, and to the skill and enterprise with which it is utilised in the extension of trade between one part of the huge continent and the other, a very large tonnage is required to meet that internal demand. But when we come to the external relations of the United States, in which free trade is abolished and replaced by protection, American shipping is so heavily handicapped that it is distanced by some even of the minor states of Europe. From her own ports her own produce is now carried away mostly in foreign bottoms. We have before us a recent number of a publication (Dornbusch's "Floating Grain Cargoes List") in which the names and nationalities are given of 107 vessels which were then loading grain for England at San Francisco, California, and Portland, Oregon. Of these 107 vessels, most of them of large size, 84 were British, 9 were German, 2 were French, and only 12 were American. Without having similarly precise statistics, our inquiries lead us to believe that in the eastern ports of the United States the proportion of foreign tonnage employed in conveying American produce to Europe is equally large. Such are the effects of discarding free trade.

It is curiously typical of the two systems adopted in the two countries respectively, that while we in the United Kingdom take three-fourths of the total American exports, the United States barely take one-twelfth of the total of ours. Some are shocked at the contrast; and think that it means a heavy loss to us. No such thing! How can it be a loss to us to buy what we want? It would really be a loss if wanting a thing we could not get it, but how we lose by getting it is not easy to understand. If, indeed, it were forced upon us, that would be objectionable; but, no! our purchases are quite spontaneous. Some people talk as though it were an act of great kindness and condescension on our part to buy largely from the Americans, and that they ought to be very grateful to us for it. This is a delusion. If we import cotton or wheat from the United

States, is it out of love and regard for our American cousins? Do we do so in order to confer upon them so great a favour that it entitles us to ask them in return to alter their fiscal system in order to please us? Not a bit of it! We buy their commodities out of selfish motives, because it suits us to do so, and it entitles us to no gratitude whatever. The very men who tell us that we ought to discourage the importation of American produce, encourage it by eating bread made from American wheat and wearing garments made from American cotton. If it is so wrong to buy from Americans because they do not choose to buy from us, why then do we do it? "Oh!" it will be said, "they inundate us with their wheat and maize, and once here what can we do?" Now, it is a great though a common mistake to say that the Americans inundate us with their grain. Far from that being the case, the Americans do not send us as much as one ship-load of grain in the course of the whole year. Many years ago the Americans used to consign a little wheat and maize to Liverpool for sale, but of late years none at all. There are not 100,000 qrs. of grain of all kinds imported in a year for American account. The whole of the large importations into the United Kingdom of American wheat, maize, &c., are purchases made in New York, Baltimore, &c., by English millers and dealers, which are shipped there for English account, at English risks, and paid for by the English buyer before he can get possession of the goods. This is a very different thing from sending the grain over to seek a sale for it here. Nor does it look as if the Americans were foisting their produce on us. They are not pedlars who bring their goods to your door and ask you to buy. They keep an open shop where you may go if you want anything. If it is such a grand favour to them and such a bad thing for you to buy their grain and their bacon and their cotton, why do you do it? There is no compulsion. The fact is that you do it for your own sake, not for theirs; and it suits you to buy quite as much as it suits them to sell. As to their being ungrateful because

they prefer making their things themselves at a heavy cost instead of buying them cheaply from you, that is nonsense. It may be a mistaken policy of theirs (and we are sure that it is) to restrict their dealings with the rest of the world when they might expand them threefold or more by adopting free trade, but, after all, it is their own affair, and while you may have a right to feel regret, you have none to express indignation.

CHAPTER XXI.

THE EFFECT ON TRADE OF POLITICAL COMPLICATIONS AND
OF LOSSES ON THE DEBTS OF DEFAULTING STATES.

THE depression in trade, of which we have been tracing the main causes, was no doubt in some degree enhanced by the fear lest the political complications connected with the Eastern Question might drag us into war. Indeed, the evil effects of war on trade are chiefly felt just before its commencement from uncertainty, and just after its close from reaction. Actual hostilities occasion a large expenditure on the part of Government, and a stimulus is given to a variety of trades. Hence a brisk demand for labour and corresponding animation among the retail dealers. Money is rapidly circulated, and for a time the industrial and mercantile classes enjoy a factitious and artificial prosperity. But at the close of a war a reaction sets in very much akin to that which followed the "leaps and bounds" of our commerce in 1872-3, and stagnation and distress ensue. Thus it was, after the termination of the long war with Napoleon in 1815, that the country underwent a crisis more severe than any that she has since sustained. Hundreds of thousands were thrown out of employ and were driven to desperation. Incendiary fires, attempts at plunder, and "bread or blood" riots spread alarm throughout the country during the years 1816 and 1817. Again, the close of the war with Russia in 1856 was succeeded by a severe panic in 1857. Numerous failures occurred, and the aggregate liabilities of the failed houses were computed to amount to £45,000,000. Government had to interfere, and saved commerce from a deadlock by empowering the Bank to extend its issues beyond their legal limits.

We do not think, however, that political apprehensions exercised much influence on the recent state of trade—certainly less than resulted from the losses sustained by the British investing public through the non-payment of dividends by several indebted states. Not only did there ensue the immediate loss of the interest that was due, but also the fear that the capital itself was endangered. Neither individual nor national suspensions are often followed by a resumption of payments. When a country once forfeits its credit by the non-payment of its dividends, it loses one great incentive to the punctual performance of its engagements, viz., the hope of contracting fresh loans. These losses were, *pro tanto*, a diminution of the available capital of the country, and thus they contributed in a certain measure to the general depression. Fortunately the bulk of them fell on wealthy persons, to whom they brought disappointment, but not ruin. One compensating effect attended them. The faith of English capitalists in the solvency and morality of foreign governments was thoroughly shaken. Very few fresh investments have been made abroad the last few years, and the savings of the country, roughly estimated at from £180,000,000 to £220,000,000 per annum, have mostly remained at home to accumulate into the unprecedentedly large sum that now lies nearly idle, and is eagerly seeking fresh fields for profitable employment.

CHAPTER XXII.

SUMMING UP.

WE have in the course of these pages endeavoured, among other things, to show:—

1. That the amounts due by a country, or to a country, whether for an excess of imports or of exports, or in settlement of a debt, are paid, not in bullion or specie, but in goods.

2. That for every export of goods, except what is sent to pay a previous debt, there must be an import of goods to the same amount, and *vice versa*. So that to restrict imports is, to that extent, to restrict exports, and to diminish foreign trade.

3. That free trade is the only system under which capital and labour find their most natural and profitable fields for employment.

4. That the protective system transfers capital and labour from natural and profitable into forced and unprofitable employments, artificially raises the cost of commodities, forfeits the advantages accruing from the division of labour, reduces foreign trade, and tends to isolate a country from the rest of the world.

5. That the reciprocity or retaliatory system, were it practicable (and it is not), would be fraught with all the evils of protection, of which it is the reproduction under a different name.

6. That the sudden increase of our exports in 1871 and

1872 was caused by the exceptionally large sums which, at that period, we sent abroad by way of loans to divers foreign countries and other foreign investments.

7. That on the cessation of that exceptional state of things, a reaction took place, and the amount of our foreign trade has been decreasing since 1874.

8. That while the money value of our foreign trade (combined exports and imports) has declined, the bulk or volume of the goods which we have sent out and received in, has undergone no diminution.

9. That owing partly to reaction, and partly to diminished gold production, a general fall has taken place in the average price of all commodities, and it has been by far the heaviest on those articles which we import from abroad. The present average price of all British produce is 8 per cent., and the present average price of all foreign produce is 32 per cent., below the average price of the same two classes of commodities respectively in the year 1861.

10. That the wages of labour have also fallen, but not in full proportion to the fall that has taken place in prices generally, so that the pressure of the times has chiefly weighed on the mercantile and middle classes.

11. That the depression in trade was not confined to England, but was universal, and has been severest in the most protected countries, so that it cannot be ascribed to free trade.

12. That we have not suffered from foreign rivalry in neutral markets.

13. That the increased excess of our imports over our exports is the sign of our wealth, not of our decay; and that all prosperous nations import more than they export; while, on the other hand, an excess of exports is a sure sign of indebtedness.

14. That our recent abstention from foreign investments has produced a larger accumulation in the country of un-

employed floating and loanable capital than has perhaps ever been known.

The conclusion to which all these considerations lead us is, that just as the free trade system enabled us to take the utmost possible advantage of the period of prosperity, so it has enabled us to meet the phase of reaction and adversity with less strain on our resources than any of the protected countries; and that any change in, or modification of, our commercial policy would prove in the highest degree inexpedient and disastrous. The present combination of low prices and of abundant capital warrant the expectation that before long there will be a movement towards higher values. As soon as this occurs, business operations will become more profitable, capital will regain confidence and circulate more freely, commerce will resume its activity, and we shall enter on a fresh cycle of prosperous years. Such periodical oscillations in trade are of never-failing recurrence, and we ought by this time to be prepared for them. But instead of this, when business is brisk and flourishing, we act as if high prices and large profits were the normal condition of trade; while, when prices fall and profits vanish and the "depression" comes on, we sink into gloom and despair, fancy that things never were so bad before, that "this time" trade is past all recovery, and we clutch at any quack nostrum as a "kill or cure" remedy. This same thing has happened every ten years on an average since the commencement of the century, and there is no merchant with some experience who does not remember within his own time two or three "crises," each of them being "the worst that ever before occurred." These alternations are, in regard to their frequency, duration, and intensity, subject to certain laws which it would be useful to study and bear in mind. It may safely be predicted, for instance, that a cycle of prosperous years will be of shorter or longer duration according to the steadiness or the precipitancy of the upward movement. The swifter the pace at which, and the greater the height to which, prices are driven up, the greater will be the corresponding reaction, and the sooner it will occur.

The more moderate the rate of progress, the longer will it be before we experience a check, and the less violent will that be when it does come.

But, no doubt, the lessons which we are thus taught will soon be forgotten or unheeded, and when the time of excitement comes, each one of us will push and press on with all his might until prices reach their climax, when reaction will ensue, and another period will supervene of loss, depression, and gloom, similar to that through which we have been passing, and from which we hope and believe that we shall before long emerge.

THE END.

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